PEPSICO, INC. ANNUAL REPORT 1983

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PEPSICO, INC.

PepsiCo has achieved a leadership position in five business segments: beverages, food products, food service, transportation and sporting goods. Within these lines of business, each division develops its own plans and goals consonant with its operating environment and PepsiCo's overall objectives.

PepsiCo's continuing growth is based upon high standards of corporate and personal performance; distinctive competitive strategies—superbly executed; and the integrity of its people, business practices and products.

Beverages: The excellent taste of Pepsi-Cola, Diet Pepsi, Pepsi Free, Mountain Dew and PepsiCo's many other flavored drinks are enjoyed by millions of persons in the United States and 148 countries around the world.

Food Products: Frito-Lay is the leading snack food company in the United States, producing the best-selling line of salty snacks as well as a growing variety of packaged cookies. Snack food products also are sold by PepsiCo Foods International in eight other countries and Puerto Rico.

Food Service: Across the United States and in a growing number of international markets, more than seven million persons a week visit a Pizza Hut or Taco Bell restaurant—the leaders in their respective segments of the industry.

Transportation: North American Van Lines is the top-rated household goods mover, and is rapidly growing in the general freight and high-value products markets.

Sporting Goods: Wilson Sporting Goods has earned a global reputation for the manufacture of fine athletic equipment. Wilson is a market leader in racket sports, golf and team sports.

FINANCIAL SUMMARY

	1983	1982	Change
Revenues	**$7,895,936,000**	$7,498,998,000	+5%
Income before unusual charge	**$284,111,000**	$303,688,000	−6%
Unusual charge	–	$79,400,000[1]	–
Net income	**$284,111,000**	$224,288,000	+27%
Net income per share	**$3.01**	$2.40[1]	+25%
Dividends declared	**$151,358,000**	$147,127,000	+3%
Dividends declared per share	**$1.62**	$1.58	+3%
Shareholders' equity	**$1,794,158,000**	$1,650,465,000	+9%
Shareholders' equity per share	**$19.18**	$17.68	+8%
Return on average shareholders' equity	**16.5%**	14.0%	+18%
Plant and equipment expenditures	**$522,327,000**	$476,178,000	+10%

[1] The unusual charge relates to a reduction in net assets of foreign bottling operations, which reduced net income per share by $.83. The charge is without tax benefit.

TO OUR SHAREHOLDERS

Donald M. Kendall (left), chairman of the board and chief executive officer, Andrall E. Pearson (center), president and chief operating officer and D. Wayne Calloway (right), executive vice president and chief financial officer, with a work by Isamu Noguchi in PepsiCo's internationally recognized sculpture garden.

PepsiCo's largest business units—domestic beverage, domestic food products and domestic food service—each achieved gains in sales and operating profits during 1983. Unfavorable economic and currency conditions continued to hamper operations in key foreign markets, however.

As a result net income for 1983 was $284.1 million and earnings per share were $3.01. This compares to 1982 net income of $224.3 million and earnings per share of $2.40, after an unusual charge of $79.4 million. Sales and revenues increased in 1983 to $7.9 billion, from $7.5 billion the previous year.

We made considerable progress in 1983 in a number of important areas.

1983: Gains Reported by Major U.S. Divisions

Growth in domestic beverage operations was spurred by the highly successful national introduction of Pepsi Free and Diet Pepsi Free, the industry's leading caffeine-free colas. Brand Pepsi-Cola retained its market share lead in foodstores, and sales of fountain syrup achieved record growth with impressive gains in several major restaurant systems.

Frito-Lay, our largest single division and profit contributor, reported sales and profit increases for the 15th consecutive year. Volume rose, buoyed by the expansion of the line of Chee•tos brand cheese flavored snacks. The cookie business continued to grow, with Grandma's brand packaged cookies now available in 36 percent of the United States.

Pizza Hut and Taco Bell restaurants continued to achieve impressive gains, leading the Food Service segment to yet another year of record financial performance. Operating profits were up 29 percent in 1983 on sales gains of 21 percent. The successful introduction of a lunch program featuring Personal Pan Pizza at Pizza Hut and the increasing popularity of several new Taco Bell menu items were responsible in large measure for the improved results.

Our Food Service business has been a strong performer for several years, with operating profits and sales gains in 1982 of 46 and 18 percent, respectively, and similar increases in 1981.

This segment was expanded in 1983 to include a new concept—retail bakery stores operating under the name La Petite Boulangerie. By year-end 36 of these stores were in operation, offering an appealing variety of breads and croissants baked several times a day in the store.

Transportation sales and earnings rose considerably above 1982 levels, reflecting large gains at North American Van Lines and a reduction in losses at Lee Way Motor Freight. We are studying the feasibility of withdrawing from the transportation business, which last year accounted for nine percent of our revenues and three percent of operating profits. Several potential buyers have expressed interest in NAVL and Lee Way, but there currently is no agreement for the sale of either division.

Wilson Sporting Goods remained the nation's leading multi-line sporting goods

GROWTH RATES LAST 10 YEARS

PepsiCo's rates of growth in every major category have been substantial over the last 10 years.

Inflation growth rate based on the consumer price index.

company. It experienced a loss in 1983, compared to a profit the prior year, because of sluggish sales and intensified competition.

Although our major domestic divisions achieved excellent operating results during 1983, we did feel the impact of adverse international economic conditions. This was particularly evident in Mexico, our largest foreign beverage and snack food market. Nevertheless, international operations have been a source of strength for our corporation in previous years, and we are committed to improving our foreign financial performance.

During 1983 we took several actions to reduce foreign overhead expenses, minimize currency risks, and consolidate and strengthen our international operations. As a result we can operate more effectively in the unfavorable climate that currently prevails in these markets and will be able to achieve maximum benefit from any improvement in international economic conditions.

We also anticipate continued strong performance from our principal domestic businesses in 1984.

1984: Strong Domestic Performance Expected

Soft drink volume will be buoyed in the United States by aggressive promotions to support the national rollout of an improved Diet Pepsi with a new blend of sweeteners and by the continuing popularity of Pepsi Free. Slice, a lemon-lime soft drink with 10 percent juice added, was introduced into test market early in 1984, and is expected to be a strong competitor. Building on a strong 1983 performance, Pepsi-Cola plans additional volume and share gains within the important restaurant market.

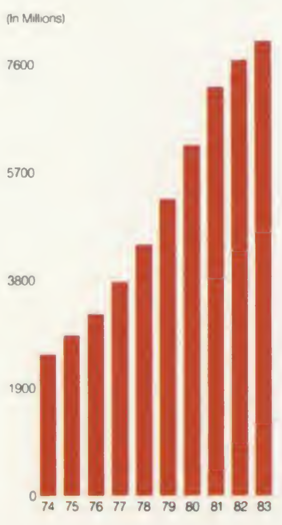
Frito-Lay introduced O'Gradys—a new, thicker potato chip—earlier in 1984, after encouraging results in test markets. The division is accelerating its product development efforts to build volume momentum in salty snacks and to solidify its position in packaged cookies. Already the low-cost producer in its industry, Frito-Lay also is committed to further reducing operating expenses and to increasing productivity.

Pizza Hut and Taco Bell anticipate continued growth both from higher average sales per restaurant and from an aggressive expansion program, with new restaurants located to increase penetration in major existing markets as well as to develop new market opportunities.

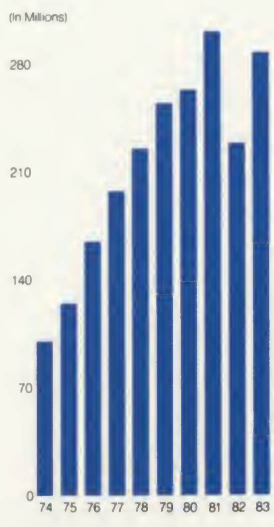
This also will be an important development year for La Petite Boulangerie, with the opening of several company-owned and franchised bakeries. Real volume per unit is expected to grow with increased advertising support, market penetration and consumer awareness.

Wilson Sporting Goods has developed several new products to stimulate growth in 1984, including a new line of Wilson Staff golf clubs that already has produced encouraging initial results. Graphite mid-size and large-head rackets will lead Wilson's new entries in the tennis market, along with an innovative see-through flexible plastic cannister for tennis balls.

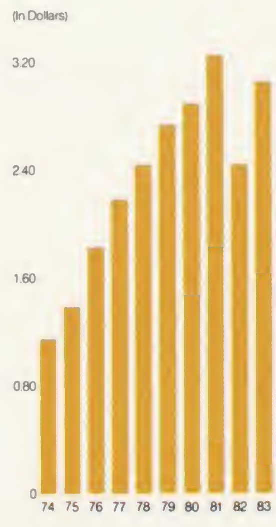
Revenues rose 5 percent in 1983 to $7.9 billion, following an increase of 7 percent in 1982.



Net Income increased 27 percent in 1983 to $284.1 million from $224.3 million in 1982 after an unusual charge of $79.4 million.



Earnings Per Share were up 25 percent in 1983 to $3.01 from $2.40 in 1982 after an unusual charge of $.83.



Future Enhanced by Investment in People and Programs

In addition to the new products and distinctive marketing strategies planned for 1984, we also have the financial resources to support them. We continue to invest heavily in our future, with record capital expenditures that last year totaled $522 million—provided entirely by cash generated by operations. We plan a significant increase in capital expenditures in 1984 to support our ambitious operating goals through new property, plant and equipment.

We also have consistently demonstrated our willingness to invest in the most important PepsiCo resource—our people. We are able to recruit and develop the best people available, and then to provide these men and women with an operating environment that encourages them to further develop their talents. Because of careful attention to personnel selection and development, we have a top-performing senior management team and a deep bench to draw upon for key positions in the future.

We are further distinguished by the quality and commitment of the individuals who serve with us on your Board of Directors. We are fortunate to have the counsel and guidance of some of the most broadly experienced and widely respected leaders from both the private and public sectors. Eight of our 13 directors are from outside PepsiCo, and bring to our deliberations a valuable balance of perspectives.

We welcomed three outstanding business people to our Board in 1983. Elected early in the year was Robert S. Strauss, a distinguished statesman and a partner in the law firm of Akin, Gump, Strauss, Hauer & Feld. Mr. Strauss combines a wealth of experience in international trade and diplomacy with a keen understanding of domestic political issues. He is a recipient of the Presidential Medal of Freedom, the nation's highest civilian award.

Frank T. Cary and D. Wayne Calloway joined our Board in September. Mr. Cary is chairman of the executive committee of International Business Machines Corporation. He previously served as IBM's chairman and chief executive officer. Mr. Calloway was president of our Frito-Lay division before being elected executive vice president and chief financial officer of our corporation.

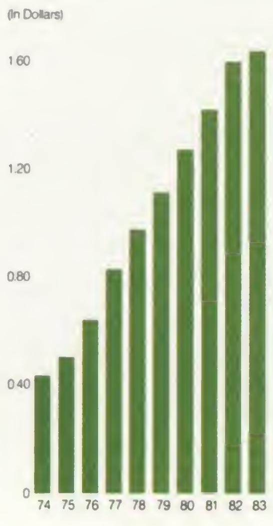
PepsiCo has never been more financially sound and never had more total resources available. We have never had better products, better programs or better people than we do now. We have great confidence in the basic strengths of our business and in our expectations of success in 1984 and beyond.

February 24, 1984

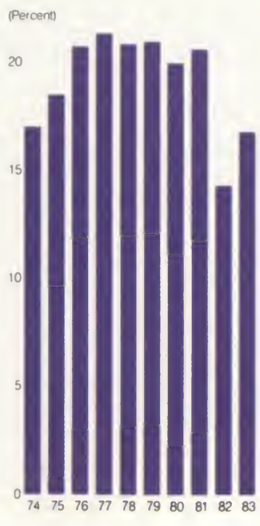
Donald M. Kendall
Chairman of the Board and
Chief Executive Officer

Andrall E. Pearson
President and Chief
Operating Officer

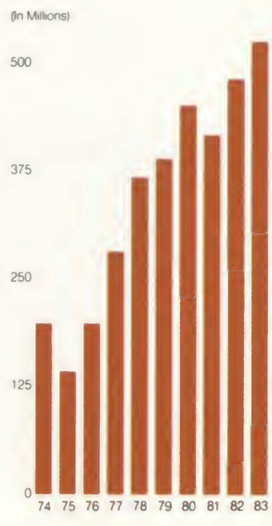
Dividends Per Share rose for the twelfth consecutive year, up 3 percent, after an increase of 11 percent in 1982.



Return on Average Shareholders' Equity was 16.5 percent up from 14.0 percent in 1982 after an unusual charge.



Capital Investment in Plant and Equipment reached a record $522 million in 1983, up 10 percent from $476 million in 1982.



EXCELLENCE IN BUSINESS BASICS

PepsiCo has achieved an enviable record of growth over the past two decades as a consumer-oriented company whose products and services are leaders in their markets and known throughout the world. Less obvious, yet just as critical, are the strengths upon which this leadership position has been steadily constructed.

Behind the PepsiCo name is an organization dedicated to excellence in every business basic. Each division provides numerous examples of a combination of basic business strengths at work. Here are just a few:

New products are a part of the growth plans of every PepsiCo business. Only six months after the introduction of Pepsi Free and Diet Pepsi Free, these new brands were available in 95 percent of the United States and in most parts of Canada. It was one of the fastest and most successful beverage introductions in history. The timely and effective distribution of these new brands has been a major factor in establishing Pepsi Free and Diet Pepsi Free as the leaders in the caffeine-free cola segment.

During 1983 Pizza Hut entered the lunchtime fast-food business with its Personal Pan Pizza. The introduction involved attention to a myriad of details—ranging from redesigned seating to handle the increased lunchtime traffic, to the special equipment developed to assure a top-quality pizza ready to serve in less than five minutes. Incremental lunchtime sales have resulted in record growth for Pizza Hut again in 1983.

Mexican food is the fastest growing major segment of the fast-food market. At Taco Bell, the leader in this market, new products such as Taco Light, Nachos and Nachos BellGrande, are increasing the number of customers and their frequency of visits. All new Taco Bell restaurants and refurbished existing units include equipment and kitchen layouts designed to handle this rapid growth. At the same time, the company is accelerating nationwide growth in both company and franchised restaurants.

New business lines are also a part of PepsiCo's basic growth strategy. La Petite Boulangerie, a specialty retail bakery, is the company's newest division. Proven management and marketing procedures are being utilized to rapidly expand this business, which features 30 varieties of breads, and croissants—all baked fresh several times daily on the premises.

Marketing promotion is another of PepsiCo's key strengths. In international markets both company-owned and franchised bottlers are demonstrating that innovative and effective marketing promotions developed for one market can be successfully adapted worldwide. In Belgium, Australia and the United Kingdom, the introduction of the Pepsi Challenge comparison taste test has improved sales performance.

At North American Van Lines (NAVL) innovative programs such as "No-Crate

Freight" show industrial shippers that by using NAVL they can save money and time, once spent building crates around equipment and machinery, and still be assured of safe delivery. Early investment in patented equipment specifically designed for handling uncrated freight has helped make NAVL the leader in this growth market.

Productivity is another PepsiCo basic. At Frito-Lay productivity improvements include computerized weighing machines that eliminate expensive overfilling of packages. Frito-Lay's attention to productivity even extends to manufacturing by-products. Solid corn and potato by-products are sold to farmers as an animal feed supplement—leading to savings in disposal costs and providing an additional source of revenue.

Efficiency improvements have also been made in Frito-Lay's store-door delivery system. Truck routes have been realigned to minimize fuel consumption while maximizing service for all customers from large supermarkets to small outlets.

Research is a part of every PepsiCo business plan. In the beverage segment, the improved taste of new Diet Pepsi—sweetened with a combination of NutraSweet brand of aspartame and saccharin—represents the result of intense technical and marketing research.

At Wilson in-depth sport research and the innovative use of new materials have paid off in the largest number of product introductions in the company's history. New lines of tennis rackets using modern materials such as braided graphite and boron have significantly strengthened Wilson's position in the tennis market. In addition, Wilson is working to reduce sport injuries with products such as Cobra football shoulder pads, which have a unique shock-absorbing design. And, the new bright orange softball has greater visibility than traditional white balls, making it easier to hit and catch.

Wilson also makes extensive use of its staff of sport professionals to design and test new products. Recently Wilson signed top tennis star Jimmy Connors to a long-term contract that calls for Connors to both use and help design new Wilson rackets.

Training is another PepsiCo basic. Pizza Hut, for example, opened its tenth training center in 1983. More than 4,500 company and franchise management personnel attended these centers. In addition, procedures established over the last two years were used to train the more than 20,000 additional workers needed for the incremental lunchtime business.

These are just a few examples of the ways PepsiCo's divisions pay close attention to the basics of business success. This dedication to excellence in every aspect of PepsiCo's operations has produced continuing improvements in performance and provides a strong foundation for future growth.

BEVERAGES

Soft drink operations, made up of several operating divisions, comprise the largest of PepsiCo's businesses. Pepsi-Cola and its allied soft drink brands are marketed throughout the world both by independent franchised bottlers working with Pepsi-Cola USA and Pepsi-Cola International, and by the company-owned bottling operations —Pepsi-Cola Bottling Group (PBG) and Pepsi-Cola Bottling International.

In 1983 domestic results were tempered by the effects of adverse economic conditions in major international markets. Total revenues increased one percent, but overall operating profit declined 42 percent.

Pepsi-Cola USA/ Pepsi-Cola Bottling Group

Major product innovations led to growth in volume and profit levels in the United States. Although confronted with extraordinarily high competitive spending levels and a proliferation of new competitive brands, domestic operations had a good year.

Pepsi Free and Diet Pepsi Free achieved national distribution early in the year and continued to break soft drink volume and dollar sales records for new products throughout 1983. Together they hold by far the largest share in the emerging caffeine-free cola market.

In addition, new Diet Pepsi with NutraSweet brand of aspartame—a low-calorie sweetener that, used in combination with saccharin, improves the taste of diet soft drinks—was introduced in the fourth quarter.

Brand Pepsi-Cola retained its leading foodstore market share. The brand's competitive position was strengthened by the use of high fructose corn syrup, a lower cost sweetener. This use follows considerable research and market testing to maintain consistent quality and taste superiority.

Growth was spurred by national and local promotions, increased advertising, expanded marketing programs and a warmer than normal summer.

Pepsi-Cola USA's Food Service Division made impressive gains. In June Burger King Corporation announced it was authorizing Pepsi-Cola products in its more than 3,200 domestic restaurants. Despite attempts by competition to make inroads at Wendy's restaurants, distribution was expanded to more than 75 percent of all Wendy's outlets. Food Service volume growth was almost four times that of this segment of the industry.

Company-owned bottling operations, many of which are in highly competitive metropolitan areas, faced intense pressure for shelf space and feature advertisements, resulting in heavy price discounting. PBG's ability to develop flexible marketing programs with trade accounts produced volume gains despite these highly competitive conditions. Productivity improvements are also strengthening the division's position.

An important part of 1983 strategy was the further development of new sales

Revenues
(In Millions)

Operating Profits
(In Millions)

*Excludes a $79.4 million unusual charge to earnings.

Strong growth in domestic beverages was spurred by the national rollout of Pepsi Free—the nation's leading caffeine-free cola brand; an increase in sales to restaurants, including Wendy's and Burger King; and the introduction of new vending equipment.


99%
CAFFEINE
FREE
COLA
pepsi free

ميرن
MIRINDA

channels, such as pharmacies, discount outlets and other nonfood stores. Pepsi-Cola USA also made impressive gains in the important vending channel. By the end of 1983 a graphically innovative line of new Pepsi-Cola vending machines was being introduced throughout the country.

As Pepsi-Cola USA enters 1984, it continues to make advertising and promotion history. One of the most exciting promotions spotlights the Jackson Family, a leading musical group featuring superstar Michael Jackson. This type of highly visible sponsorship will help maintain Pepsi's momentum in the marketplace and increase identification with its principal markets.

Pepsi-Cola International/ Pepsi-Cola Bottling International PepsiCo's international soft drink operations are comprised of more than 600 franchisee and company-operated bottling plants in 148 countries and territories.

Worldwide economic problems adversely affected both divisions. Combined international revenues fell below 1982 levels, resulting in an operating loss.

Nevertheless, the franchise division increased case sales in many important markets, notably Egypt, Saudi Arabia, Japan, the United Kingdom, Thailand, Canada, the USSR and Argentina. These gains were more than offset, however, by unfavorable economic conditions in Mexico, Venezuela and other Latin American countries. Total franchise case sales were up slightly above 1982 levels.

In its international markets, which are potentially many times larger than the U.S. market, beverage operations are establishing strong business foundations—ranging from more effective marketing and promotion programs to increased capacity and improved distribution.

In Canada the success of Pepsi Free gives indications of repeating the U.S. experience and becoming the leading caffeine-free brand. In the United Kingdom and Australia, the introduction of the Pepsi Challenge—patterned after the highly successful U.S. taste preference promotion—significantly increased sales. In Australia, for example, market share in the supermarket segment rose spectacularly in the first six months of the Pepsi Challenge promotion.

The division's largest franchise plant, a modern and highly automated facility, opened in Iraq. Other highlights include successful product introductions, such as Mountain Dew in Thailand, and sales-building promotions. Pakistan bottlers, for example, staged their first national promotion.

Company-owned bottling operations increased market share in most areas. Major programs to improve productivity and operating efficiencies were successfully implemented in all countries and, together with new product and package introductions significantly improved the company's competitive position in 1983.

Colas are the world's largest and fastest growing soft drink. But in PepsiCo's international markets, flavors like Mirinda Orange, shown advertised on a Cairo billboard, command an important share of soft drink sales.

FOOD PRODUCTS

This segment is made up of PepsiCo's largest profit contributor, Frito-Lay—America's leading snack food company—and PepsiCo Foods International (PFI). PFI manufactures and sells snack food in eight foreign countries and Puerto Rico.

In 1983 total domestic and foreign operating profits grew seven percent on a revenue increase of five percent. Results reflect productivity gains and margin improvements domestically offset in part by currency exchange-related difficulties overseas, primarily in Mexico.

Frito-Lay PepsiCo's domestic snack food division recorded its 15th consecutive year of increased sales and profits. Total Frito-Lay volume increased, as its major salty snack brands remained market leaders and the new Grandma's brand cookie line was established in more than one-third of the United States.

A major goal of Frito-Lay continues to be profit margin improvements through productivity gains. The division launched a five-year program whose goal is to use technological breakthroughs to generate enough savings to offset all cost increases due to inflation.

For example, potato and corn research has led to increased potato solids that yield more finished product per pound of raw material than ever before. New processing equipment allows even more efficient use of resources by reducing waste. The installation of precise and versatile weighing and packaging machines at five production facilities enables far more accurate package weight control. The saving from this measure alone is the equivalent of one manufacturing plant's annual capacity.

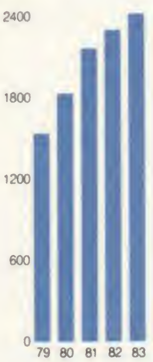
The addition of two new facilities is expected to contribute to continuing improvements in operating efficiency. In 1983 Frito-Lay opened its first corn storage facility in the Midwest and began construction on a new snack food production plant in Casa Grande, Arizona.

During the year Frito-Lay's highly successful store-door delivery system was refined to accommodate future growth. Through a realignment of sales operations and assignments, the company is better serving the needs of both large supermarket accounts and smaller convenience stores and single outlets, all without sacrificing the personal service for which the company is famous.

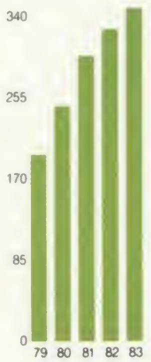
In 1983 Frito-Lay implemented a number of programs to stimulate growth in its major brands. The Chee•tos line was expanded to regular, sharp and mild flavors, appealing to a broader variety of consumer cheese preferences. A new, innovative advertising campaign for Lay's brand potato chips was launched. A unique promotion designed to gain incremental shelf space for all Frito-Lay salty snack products was implemented with the trade.

Other new products designed to appeal to an increasingly segmented market were also developed

Revenues
(In Millions)



Operating Profits
(In Millions)



Frito-Lay's national store-door sales and delivery system assures superior product quality and freshness, no matter where Frito-Lay products are purchased, whether in urban supermarkets or small rural stores.


Ruffles
Doritos
Tortilla Chips
3/4 POUNDER
Chee·tos
BRAND
3/4 POUNDER
Fritos
BRAND
Chee·tos
BRAND

during the year. O'Gradys, a new brand potato chip that is sliced thicker to produce more potato taste, produced encouraging test market results during 1983 and was introduced nationally early in 1984.

Sabritas brand restaurant-style tortilla chips were introduced in several markets as an entry into the fastest growing segment of the tortilla chip category. Sunchips brand corn chips, with a thin crispy texture and light corn taste, are doing well in several test markets.

In Frito-Lay's cookie business, Grandma's brand packaged cookies were expanded from 13 percent to 36 percent of the United States. In addition, the company introduced the new Rich 'n Chewy brand line of Grandma's brand cookies, a homemade-style soft cookie that gained substantial share in initial test markets.

Every area of business activity is supported by Frito-Lay's continuing commitment to product superiority.

PepsiCo Foods International Economic difficulties, primarily in Mexico, severely hampered results in 1983. PFI operates in nine markets, but solid gains in most areas could not offset adverse Latin American results.

The division's business in Spain achieved strong growth. Volume and profits were significantly up over the prior year. The excellent results reflect intensified advertising and promotional programs, new product introductions and productivity improvements. A summer focus on Fritos brand corn chips more than tripled sales volume.

PFI also achieved performance improvements in Japan and Puerto Rico. Sales in Japan are growing primarily as a result of the continued strength of Tako Yaki, an octopus seasoned snack that capitalizes on local taste preferences.

PFI's Canadian operation expanded its distribution and gained market share.

The division's Australian joint venture with Arnott's—a high quality cookie company with established distribution channels—made significant progress. PFI's manufacturing expertise has improved productivity and quality. A coordinated advertising, marketing and sales plan introduced Fritos brand corn chips and two forms of Chee•tos brand cheese flavored snacks. Initial results show excellent trade and consumer acceptance of these products, which are new brands to the Australian market.

In Mexico the national snack market declined 18 percent as economic problems reduced consumer disposable income. In spite of this, Sabritas, PFI's Mexican snack food company, held market share.

In Brazil the company's Elma Chips operation introduced five successful product line extensions. Fandangos brand, a corn-based cheese flavored chip, quickly became Elma Chips' second largest selling product in supermarkets.

Sabritas brand products continue to be the best-selling snack food in Mexico. In Spain successful programs have increased salty snack volume by 30 percent and established Onduladas, Boca Bits and Fritos as major brands.

FOOD SERVICE

PepsiCo's Food Service operation is the company's fastest growing business segment. Operating income was up 29 percent on a revenue increase of 21 percent. These growth rates are particularly impressive because they follow similarly strong increases in 1981 and 1982.

The division's success is based on the excellent performance of more than 6,000 restaurants in the system, nearly 3,000 of which are company-owned. The segment includes Pizza Hut, Taco Bell, La Petite Boulangerie and PepsiCo Food Service International (PFSI).

Pizza Hut The year saw substantial growth in volume and profits for the nation's leading pizza restaurant chain. Growth in average sales per restaurant climbed more than 18 percent over 1982 levels, nearly twice the industry's rate.

In March Pizza Hut introduced Personal Pan Pizza systemwide. With the rollout of the six-inch lunchtime pizza—served in less than five minutes—pizza became a fast-food alternative. The new pizza, an extension of the highly successful Pan Pizza introduced in 1981, more than doubled midday sales, traditionally a slow period. Significantly, the new pizza expanded Pizza Hut's consumer base by attracting new customers for lunch, who often returned another time for dinner.

Close attention to detail ensured Pizza Hut's success. Conveyor ovens, special dough handling equipment and increased refrigeration capacity were installed in virtually all restaurants by year-end, bringing the restaurant chain to unsurpassed levels of capacity and technology. Microprocessor cash, inventory and production systems also are being put into operation.

Restaurant refurbishing continues, with foyers being installed in many restaurants in order to handle the swiftly increasing carryout business, an area with strong future growth potential.

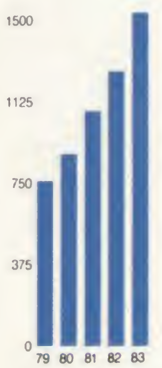
With existing restaurants now well-equipped and refurbished, Pizza Hut returned to system expansion, adding 174 company-owned and franchised restaurants during the year.

To take advantage of this momentum, Pizza Hut has created national advertising emphasizing product superiority, and has established a program of continuing product improvements.

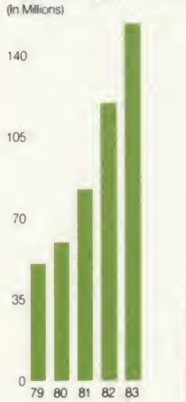
Taco Bell, the leader in the Mexican segment of the fast-food category, achieved record sales and profits. Average sales per restaurant were up sharply in 1983 for both company-owned and franchised restaurants. Results represent increases in the number of customer visits, party size and in average check amount.

Two new products were introduced throughout the system: Taco Light, a product with a wheat flour tortilla shell, and Nachos, a side dish of crisp corn tortilla chips with a cheddar cheese sauce. Both exceeded the

Revenues
(In Millions)



Operating Profits
(In Millions)



Personal Pan Pizza accounts for the major portion of Pizza Hut's expanding lunch business. High quality and good value, including ample salad bars, have made the system the country's leading pizza restaurant chain.

previous record sales levels for new products. This strategy of expanding the menu is increasing consumer acceptance of Taco Bell's Mexican food as a fast-food choice and is making the system one of the fastest growing fast-food chains in the nation.

Taco Bell's success has also come as a result of heavy investment. Existing restaurants are being upgraded with more efficient dual food-preparation lines, electronic point-of-sale equipment and expanded seating configurations. Business building drive-thru service facilities also are being installed wherever locations permit. Taco Bell continues to expand with 174 restaurants added in 1983, many of them in new regions.

As Taco Bell expands, close attention is being focused on restaurant appearance and brand identification. A new Taco Bell logo, redesigned restaurant interiors and exteriors, and major promotions, such as the planned exclusive tie-in with the movie "Star Trek III," will be highlights of 1984.

La Petite Boulangerie is PepsiCo's new retail specialty breads bakery. From a base of three small retail outlets acquired in 1982, the bakery division has grown to 36 shops in California, northern New Jersey and the Philadelphia metropolitan area. La Petite Boulangerie offers products of superior quality, baked in the store several times a day. In 1984 PepsiCo will be implementing strategies to expand to other market areas with both company-owned and franchised retail bakery outlets.

PepsiCo Food Service International PepsiCo's foreign restaurant operations and U.S. food and equipment supply systems once again registered strong growth. Sales and profits increased significantly in 1983, despite foreign currency translation problems.

The domestic supply operations benefited from increased restaurant volume and additions of new Pizza Hut and Taco Bell restaurants. An aggressive expansion plan overseas saw 50 Pizza Hut and Taco Bell restaurants added in 1983, increasing the total to 334 restaurants operating in 26 countries.

The division continues to grow dramatically through PFSI's partnerships with leading foreign companies in key markets. For example, PFSI's joint venture with Whitbread & Company, Ltd., a leading brewery with major real estate holdings in the United Kingdom, has led to dramatic growth and market penetration. The number of restaurants doubled in 1983 and record sales volumes were set. In Mexico PFSI's operation with Gruma S.A., a major agricultural firm, doubled its number of restaurants.

Company-owned restaurant performance is also excellent, particularly in Australia where Pizza Hut is the largest pizza chain and ranked third in the overall fast-food industry.

In 1984 PFSI will continue to aggressively increase its penetration of major markets, while expanding its operations into new areas.

Taco Bell is the leader in the fastest growing segment of the fast-food market. Products such as the recently introduced Taco Light (left) and Taco Salad (right), now in test market, are bringing additional customers into Taco Bell restaurants.

TRANSPORTATION

PepsiCo's transportation division is composed of North American Van Lines, Inc. (NAVL), a leading van line, and Lee Way Motor Freight, an interregional carrier. Operating profits for the segment increased 16 percent on a revenue increase of six percent.

North American Van Lines had an excellent year, recording revenue and profit increases over 1982. NAVL increased tonnage shipped and transported a record number of shipments. Reports filed with the Interstate Commerce Commission show that America's families and businesses choose NAVL's Household Goods and High Value Products services more than any other van line.

As widespread discounting continues to characterize the trucking industry—a result of deregulation—NAVL has responded with unique marketing programs and product innovations without raising operating costs.

Taking advantage of its ability to handle specialized products, NAVL's High Value Products Division (HVP) increased its focus on moving sensitive industrial equipment. HVP is shipping a growing variety of valuable items, including trade show and art exhibits.

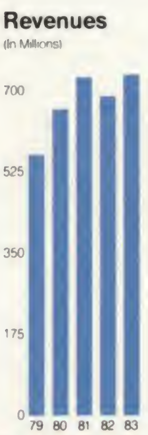
NAVL's Household Goods Division continues to improve as the economy strengthens. To reach a previously unserved segment of the market, NAVL introduced "You Load, We Drive" service, an alternative to rent-a-truck moves. Families pack and load their own household goods. A NAVL driver advises the family on loading the moving van, and then drives it to the destination. This innovative service provides families with an economical move, and has produced excellent results for the company.

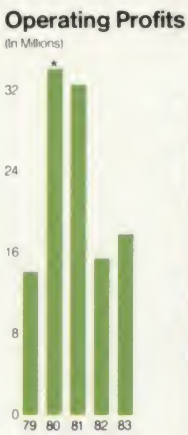
NAVL's top level service rating took on additional meaning during the year as the company gained recognition as a pacesetter in international service standards. NAVL's International Division has significantly reduced international delivery times at no added cost to its customers. This enhanced service, combined with NAVL's worldwide organization, has significantly increased international business activity.

NAVL's Commercial Transport Division continues to hold its preeminent position in the truckload freight market by being among the first to utilize the wider and longer trailers recently permitted by the United States Congress. This has enabled many customers to ship more products at no increased cost.

Lee Way Motor Freight In 1983 the company focused on strengthening its competitive position. Twenty new agencies and one company terminal were opened, sales training was formalized, and an aggressive marketing plan was developed.

Despite implementation of these strategies, the company suffered an operating loss in 1983.





*Excludes a $17.8 million extraordinary charge to earnings.

North American Van Lines is expanding into new international and domestic business segments. In the growing air freight market, central coordination of all ground and air arrangements expedites overnight delivery to almost anywhere in the country.

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SPORTING GOODS

Wilson Sporting Goods maintained its position as America's leading multi-line sporting goods company, despite declines in both volume and revenues. The declines reflect intensified competitive activity and reduced orders during the first quarter of the year. As a result Wilson reported a loss for 1983.

Wilson Sporting Goods introduced several products during the year that will position the company for growth in the future.

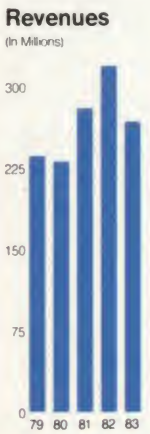
In golf Wilson brought out a new International line of metal woods and new Staff irons. The Haig line has been redesigned and repositioned in the marketplace to capitalize on the demand for premium quality clubs.

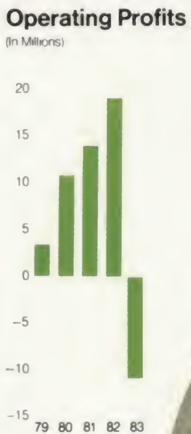
In racket sports Wilson, the market leader in tennis balls, has developed the first soft plastic see-through packaging. This innovation permits the consumer to test for pressure. At the same time Wilson established a strong position in the important graphite segment of the tennis racket market. Wilson's expanding line of tennis rackets includes a full choice of standard, mid-size, large-heads and a unique super large-head design. A special racket sales force has been created to fully develop this market opportunity.

Wilson continues to enjoy brand name recognition in team sports, from the professional level (where since 1941 every point scored in the National Football League has been scored with a Wilson football) to the growing youth soccer market.

Wilson's International Division showed good performance in view of worldwide economic problems. The company is introducing the new products being offered in the United States plus select products tailored to the unique requirements of several key foreign markets, such as tennis balls designed for the varied court surfaces used in international play.

Wilson's direction in 1984 will be characterized by a continuing emphasis on new products, product performance, building strong consumer support and new sales promotions designed to stress the broad-line supply capability of Wilson to retailers.





A continuing program of product introductions and improvements—such as see-through tennis ball packaging that the customer can squeeze to check for pressure—maintains Wilson's top reputation for quality and innovation among professionals and amateurs alike in the company's major product areas—golf, tennis and team sports.

Wilson.
OFFICIAL BALL
U.S. OPEN
Wilson.
CHAMPIONSHIP
New Pressure Pack
Guaranteed Fresh... Feel the Pressure
Win Under Pre
Instant Win Game
GRAND PRIZE: TRIPS TO U.
OFFICIAL BALL
U.S. OPEN
Extra Duty Felt
Hard Court Surfaces
Three Tennis Balls
Optic Yellow
Approved by U.S.T.A.

CORPORATE RESPONSIBILITY

In order to fulfill the primary responsibility of maximizing the return over time for its shareholders, PepsiCo believes in preserving and enhancing the environment in which its divisions operate.

In recent years PepsiCo has carefully defined principal areas of corporate involvement. This, plus the substantial increase in the PepsiCo Foundation's gifts and grants, has allowed the corporation to make a growing impact in the areas of health and human services, education and the arts.

In the area of preventive medicine, PepsiCo has established with the Boys Club of America the SuperFit All-Stars program, a health-related fitness education effort for youth.

PepsiCo Fellows at Duke University Medical Center, Harvard Medical School, Mayo Clinic and Stanford University School of Medicine are now conducting research into the relationship between exercise and fitness.

PepsiCo's support of education includes scholarships, and a 10-year commitment totaling $1 million to the United Negro College Fund. PepsiCo provides financial and program sponsorship for the Leadership, Education and Development (LEAD) program at Columbia University, an effort to widen the pool of future minority business leaders.

Programs at a variety of undergraduate and graduate schools and on the high school level are designed to improve the quality and availability of educational opportunities. PepsiCo provides research and professorship support in the areas of marketing, food service, economics and international management. A commitment to Columbia University's Center for Research in Career Development has led to important studies on such subjects as human resource functions and male and female career patterns.

PepsiCo's continued interest in the arts is best represented by support of PepsiCo Summerfare, one of the leading performing arts festivals in the United States, produced by the State University of New York at Purchase.

The PepsiCo Foundation works with PepsiCo's operating companies to actively develop national and regional programs. Beyond this the Foundation matches employee gifts to educational and arts institutions. This year an Awards to Volunteers program was launched to recognize and support employee volunteer activities and to provide funds to additional nonprofit organizations.

PepsiCo's divisions also work independently to provide support for social agencies, projects and programs. For example, since 1975 Pepsi-Cola USA has sponsored "Tony Brown's Journal," the country's leading television program on black affairs. Frito-Lay's involvement with the Adopt-A-School program in Dallas has been nationally recognized.

These and many other programs are helping to demonstrate PepsiCo's corporate citizenship.

PepsiCo's support of programs in preventive medicine and physical fitness includes the SuperFit All-Stars, established with the Boys Club of America. The goal is to instill healthy life-style habits in young people through a program that includes health screening, exercise, group activities and recognition.

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FINANCIAL REVIEW

Analysis of Operations

PepsiCo revenues increased five percent in 1983 to $7.9 billion, following a seven percent gain in 1982. Net income was $284.1 million, with earnings per share of $3.01 in 1983. These results compare to respective net income and earnings per share of $224.3 million and $2.40 in 1982. Net income in 1982 was adversely impacted by an unusual charge without tax benefit of $79.4 million, or $.83 per share for the reduction in net assets of PepsiCo's foreign bottling unit. Excluding last year's unusual charge, income declined six percent in 1983 as strong growth in major domestic businesses was offset by weak foreign beverage results and, to a lesser degree, reduced results from food products in Mexico and domestic sporting goods operations. Much of the decline overseas reflected economic and currency-related difficulties in major markets, particularly Mexico and Venezuela. PepsiCo's 1983 fiscal year encompassed 53 weeks compared to 52 weeks in 1982 and 1981. Reported revenues and profits cover 53 weeks in 1983, while volume figures have been adjusted to a comparable 52 week basis.

Revenue gains in 1983 reflected excellent growth in our food service business and continued gains in domestic beverage and food products operations. These gains combined to offset the impact of currency devaluations and, to a lesser degree, lower volumes overseas. Combined cost of sales and cost of other operating revenues, up three percent in 1983 and two percent in 1982, continued to increase less rapidly than total revenues. Domestic food products and beverage costs benefited from favorable commodity and material costs and increased operating efficiencies. The impact of inflation on costs is reviewed under Discussion of the Effects of Inflation below. Gross profit margins advanced again in 1983 reflecting the favorable cost performance and pricing actions taken during the year. These improvements together with domestic volume gains resulted in an eight percent increase in gross profits in 1983, following an 11 percent rise in 1982.

Marketing, administrative and other expenses in total increased 12 percent in 1983, following a 13 percent increase in 1982. These expenses continued to rise faster than revenues in 1983 as a result of competitive spending levels in domestic beverage, introductory costs associated with new products and programs and disproportionately high costs in areas of soft volume. New product and program activity increased in 1983 and continued to focus on domestic beverage, food products and food service businesses. Advertising and marketing expenditures alone increased 15 percent in 1983, following a 22 percent increase in 1982.

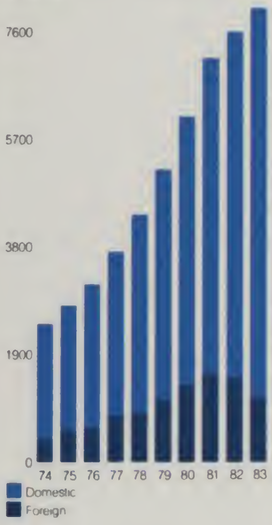
Foreign currency translation gains were $17.1 million in 1983, compared to $12.3 million in 1982 and $22.7 million in 1981. The foreign currency gains in 1983 and 1982 were primarily due to the devaluation of hyperinflationary foreign currencies such as those of Argentina, Brazil and Mexico in which PepsiCo was in a net monetary liability position and were calculated on the basis of Statement of Financial Accounting Standards (SFAS) No. 52. The gains in 1981 were accounted for on the basis of SFAS 8 and resulted from the general strength of the U.S. dollar.

Profits before interest, taxes and the unusual charge declined 15 percent in 1983, following a five percent gain in 1982. Continued strong domestic growth in 1983 was offset by the impact of weak foreign beverage results and lower food products results in Mexico. In addition, the refranchising of several foreign bottling operations resulted in a pre-tax charge of $32.7 million in 1983, compared to a $7.0 million charge in 1982. Profits in 1982 also benefited from a $12.0 million increase in income associated with a leasing transaction.

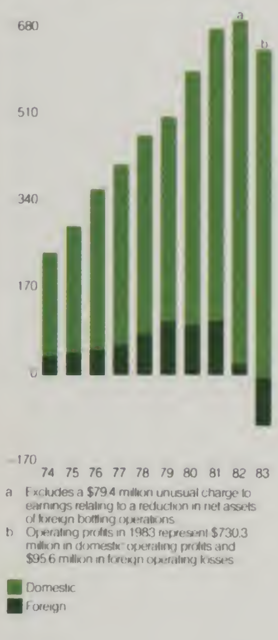
Net interest expense (after deducting interest income) increased $10.3 million to a total of $123.4 million in 1983, primarily due to higher cost borrowings in hyperinflationary foreign currencies. Net interest expense rose $8.3 million in 1982 due to somewhat increased debt levels and higher interest rates than those in 1981.

The provision for U.S. and foreign income taxes was 33.2 percent of income before taxes in 1983, compared to 42.8 percent of income before taxes and the unusual charge in 1982 and 41.5 percent in 1981. The reduced tax rate in 1983 reflects U.S. tax benefits with respect to legal reorganizations and tax elections relating to certain major foreign operations and the losses on the refranchising of several

Domestic and Foreign Revenues
(In Millions)



Domestic and Foreign Operating Profits
(In Millions)



a Excludes a $79.4 million unusual charge to earnings relating to a reduction in net assets of foreign bottling operations.
b Operating profits in 1983 represent $730.3 million in domestic operating profits and $95.6 million in foreign operating losses.

foreign bottling operations. In part, these actions yielded tax benefits related to foreign bottling losses incurred in prior years, for which no U.S. or local tax benefits were then available. The tax benefits on the refranchising activities substantially offset the associated pre-tax losses.

PepsiCo's return on assets employed in 1983 was 11.9 percent compared to 10.1 percent in 1982 and 14.0 percent in 1981. Excluding the unusual charge to earnings, return on assets employed would have been 12.6 percent in 1982. The reduction in 1983 was primarily due to the six percent decline in income below last year's income before the unusual charge. A smaller impact resulted from an increase in net assets employed, primarily due to increased expenditures for plant and equipment. Return on average shareholders' equity was 16.5 percent in 1983 versus 18.5 percent and 14.0 percent before and after the unusual charge in 1982.

Beverage

Combined domestic and foreign beverage revenues rose one percent in 1983 following five percent growth in 1982, as continued strong domestic growth resulting from both price and volume increases was substantially offset by further declines overseas. Domestic bottler case sales increased six percent in 1983 following two percent growth in 1982. The strong growth in 1983 resulted from the successful nationwide rollout of Pepsi Free and Diet Pepsi Free, conversion of Burger King Corporation's domestic restaurants to Pepsi-Cola products and warm summer weather. In addition, a new Diet Pepsi sweetened with a blend of aspartame and saccharin was introduced in the fourth quarter of 1983. Foreign revenue declines in 1983 reflected reduced concentrate shipments and economic and currency-related difficulties overseas. No concentrate shipments were made to Venezuela in 1983 due to devaluation of the Venezuelan bolivar and uncertainty regarding the Venezuelan government's foreign exchange policy. Large Venezuelan shipments and profits were recorded in 1982 prior to the bolivar devaluation. Overseas bottlers' case sales declined two percent in 1983, following a three percent decline in 1982.

Segment operating profits before the $79.4 million unusual charge in 1982 dropped 42 percent in 1983, following a 13 percent decline last year. Continued domestic growth in 1983 was offset by increased operating losses overseas. Domestic profit growth was again less than proportionate to revenue growth in 1983 as a result of introductory costs associated with new products and programs and increased competitive marketing spending levels. The increased foreign operating loss in 1983 was primarily due to unfavorable year-to-year comparisons in Venezuela and Mexico. As part of PepsiCo's continuing objective to strengthen its franchise system, PepsiCo incurred losses on overseas refranchising activity totaling $32.7 million in 1983 and $7.0 million in 1982.

Food Products

The Food Products segment recorded revenue and profit growth of five and seven percent in 1983 following respective gains of seven and nine percent in 1982. Increased sales and profits in 1983 at Frito-Lay continued to more than offset unfavorable Mexican peso translation rates and reduced results overseas. Domestic profits benefited from price increases taken early in 1983, favorable raw material, manufacturing and distribution costs and moderate volume increases. Domestic volume grew one percent in 1983, on the strength of increased volumes in the final quarter of the year. These factors more than offset introductory costs associated with new products and with Grandma's brand packaged cookies, which were expanded from 13 to 36 percent of the U.S. in 1983. Domestic volume advanced seven percent in 1982. Foreign operations incurred a loss in 1983, primarily due to the unfavorable translation impact resulting from the massive 1982 devaluations of the Mexican peso. Overseas volume declined 13 percent in 1983 due to economic difficulties within Mexico, our major overseas market. Foreign volume grew six percent in 1982.

Food Service

Food Service recorded another highly successful year in 1983 as Pizza Hut and Taco Bell successfully built upon their leadership positions in the pizza and Mexican fast-food segments. Food Service revenues and profits grew 21 and 29 percent in 1983, following respective increases of 18 and 46 percent in 1982. Strong 1983 results reflected large volume gains and, to a lesser degree, increased pricing and higher operating margins. Average store sales at company-operated Pizza Hut and Taco Bell restaurants increased 17 percent in 1983 following a 14 percent increase in 1982. Average real volume per store advanced 11 percent in 1983 and five percent in 1982, more than twice the industry average in each year. Volume gains continue to reflect the success of new product introductions, improvements in store decor and installation of the latest food handling equipment. Pizza Hut volumes benefited from the national introduction of the lunchtime Personal Pan Pizza in the first half of 1983 and the continued success of Pan Pizza, nationally-introduced in 1982. Taco Bell completed successful national rollouts of Taco Light (a high-quality taco with a wheat-based shell) in the first half of 1983 and Nachos (a side dish of crisp corn tortilla chips with a cheese sauce) in the final quarter of the year. Strong segment profit growth in 1983 was achieved despite somewhat smaller profits from the refranchising of company-owned restaurants in 1983 versus 1982.

Transportation

Transportation revenues and profits improved from depressed 1982 levels despite continued intense competition industry-wide. Improved economic conditions in 1983 assisted growth, particularly in the latter half of the year. Revenues increased six percent in 1983 following a five percent decline in 1982. Operating profits advanced 16 percent off a small 1982 base, following a 53 percent decline in the harsh economic and competitive conditions of 1982. Strong shipment gains and tight control of costs resulted in increased revenues and profits at North American Van Lines in 1983. Lee Way Motor Freight recorded reduced revenues and shipments in 1983, with operating losses slightly less than 1982 as a result of increased cost controls and the closing of several non-profitable locations.

Sporting Goods

Wilson Sporting Goods results declined from strong 1982 levels. Revenues declined 17 percent in 1983 following 15 percent growth in 1982, with an operating loss recorded in the current year. The reduced performance in 1983 reflected high retail inventories early in the year due to increased shipments throughout the industry in late 1982, increased competition and sluggish retail sales of team sport products. Results were also negatively impacted by $7.8 million of pre-tax charges, primarily related to the contraction of wood tennis racket operations.

Business Segments

Revenues (in millions)	1983		1982[1]		1981	
	$	%	$	%	$	%
Beverage	2,940.3	38	2,908.0	39	2,772.3	40
Food products	2,430.1	31	2,323.8	31	2,177.9	31
Food service	1,529.4	19	1,260.6	17	1,069.8	15
Transportation[2]	730.4	9	688.1	9	725.9	10
Sporting goods	265.7	3	318.5	4	277.3	4
Total[2]	7,895.9	100	7,499.0	100	7,023.2	100
Foreign portion	1,181.9	15	1,450.8	19	1,594.5	23
Operating Profits (in millions)[3]						
Beverage	126.2	20	217.7[4]	31	251.6	37
Food products	347.7	55	326.4	47	298.5	44
Food service	154.3	24	119.3	17	81.9	12
Transportation[2]	17.7	3	15.2	2	32.4	5
Sporting goods	(11.2)	(2)	19.2	3	14.0	2
Total[2]	634.7	100	697.8[4]	100	678.4	100
Foreign portion	(95.6)	(15)	22.0[4]	3	103.2	15

	Identifiable Assets			Depreciation and Amortization Expense			Capital Expenditures[5]		
	1983	1982[1]	1981	1983	1982[1]	1981	1983	1982	1981
	$	$	$	$	$	$	$	$	$
Beverage	1,249.0	1,388.8	1,338.1	84.9	81.2	72.0	93.7	111.2	129.4
Food products	1,110.1	949.5	945.3	81.9	70.9	62.0	180.2	166.8	141.9
Food service	825.9	649.9	567.1	58.0	44.4	38.5	217.9	128.0	87.8
Transportation	285.0	278.0	284.5	21.4	23.2	22.2	13.7	28.9	38.2
Sporting goods	275.5	284.5	261.3	6.4	5.9	5.2	5.3	11.0	9.5
Corporate[6]	892.8	646.8	643.7	8.1	4.8	5.6	11.5	30.3	7.6
Total	4,638.3	4,197.5	4,040.0	260.7	230.4	205.5	522.3	476.2	414.4
Foreign portion	988.3	1,265.5	1,231.4	52.6	52.0	49.6	43.8	73.0	114.1

[1] PepsiCo adopted Statement of Financial Accounting Standards (SFAS) No. 52 on foreign currency translation at the beginning of 1982. Prior year results have not been restated for SFAS 52 (see Note 1 to Consolidated Financial Statements).

[2] Excludes the results of PepsiCo Building Systems, which was sold in the second quarter of 1981.

[3] Excludes general corporate expenses and interest expense (net) which totaled as follows (in millions): 1983: $209.6; 1982: $167.3; 1981: $170.1.

[4] Excludes a $79.4 million unusual charge without tax benefit during the fourth quarter relating to a reduction in net assets of foreign bottling operations (see Note 10 to Consolidated Financial Statements).

[5] Excludes expenditures for returnable bottles and cases.

[6] Corporate assets are principally marketable securities, investment in tax leases and administrative office buildings.

Capital Spending

PepsiCo's expenditures for plant and equipment (including capital leases) increased to a record $522 million in 1983 following expenditures of $476 million in 1982 and $414 million in 1981. In 1982 domestic bottling units in strategic areas of the country were acquired at an additional cost of $130 million. Capital spending in 1984 is expected to increase substantially as PepsiCo continues to invest in future growth. The major portion of 1983 expenditures was devoted to increased distribution capabilities, capacity expansion and the upgrading of existing facilities in the Beverage, Food Products and Food Service domestic businesses. Overseas efforts concentrated on improving returns on our existing asset base. Beverage spending focused on increased product distribution. In Food Products, Frito-Lay continued to expand its distribution capabilities to the customer and add to its extensive production capacity. In support of the exceptional real growth experienced in the food service area, Pizza Hut and Taco Bell together opened 170 new company-owned stores and continued to upgrade existing stores with the latest in food handling equipment. In addition to the record capital expenditures for plant and equipment mentioned above, investment in returnable bottles and cases was $22 million, compared to $57 million in 1982 and $76 million in 1981.

Liquidity, Financial Resources and Capital Structure

PepsiCo continues to emphasize long-term profit growth and return on assets as key objectives of the corporation. Management seeks to achieve these objectives through the allocation of financial resources to businesses and investment projects which meet the appropriate return criteria. In support of future growth, PepsiCo manages its capital structure and the use and maturity mix of external funds to retain financing flexibility and minimize long-term financing costs. These actions, together with the continued supply of funds from operations, result in a strong financial position.

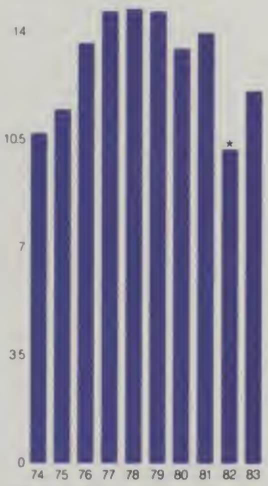
Internally generated funds from operations continued to supply substantially all of PepsiCo's financial requirements in 1983. Cash provided by operations totaled $695 million in 1983, exceeding PepsiCo's total expenditures of $674 million for plant, equipment and dividends. Cash provided by operations totaled $722 million in 1982, up 40 percent from 1981, covering more than 95 percent of total expenditures for plant, equipment, acquisitions and dividends. Working capital provided a $3 million source of funds in 1983 versus a $112 million source in 1982.

In 1983 additional financial resources totaling $169 million were provided by property disposals of $54 million and net realized tax benefits of $115 million resulting from investments in tax leases. In 1982 these sources provided $252 million, with $227 million relating to tax lease investments. The tax lease benefits result from PepsiCo's investment of $41 million and $367 million in 1982 and 1981, respectively, to purchase accelerated depreciation deductions and tax credits in accordance with the provisions of the Economic Recovery Tax Act of 1981. These investments which were funded primarily with short-term borrowings provide PepsiCo with a low cost source of funds that will generate cash inflows through reduced tax payments during the next several years.

Net borrowings increased by $13 million in 1983, following a $203 million reduction in 1982. With debt nearly unchanged, PepsiCo's ratio of debt to capital employed decreased to 31.7 percent in 1983 from 34.7 percent in 1982 and 40.8 percent in 1981. The 1981 ratio reflects the high initial level of debt associated with the investment in tax leases. The composition of total debt shifted somewhat in 1983 to the short-term category, as a result of a long-term obligation which matures in 1984.

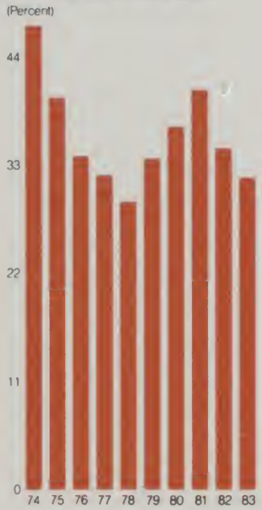
PepsiCo's internal generation of funds from operations continues to be the company's greatest financial strength. As a result of strong performance throughout the year, cash and marketable securities increased $275 million in 1983. In addition, PepsiCo maintains a strong credit standing and has access to capital markets throughout the world. The company also maintains substantial unused bank credit facilities and continues to carry sizeable marketable security investments in Puerto Rico that can be repatriated at management's discretion upon payment of a modest tollgate tax. Together, these sources of funds provide PepsiCo with a strong financial base and the flexibility to support continued future growth.

Return on Assets Employed
(Percent)



*After $79.4 million unusual charge to earnings.

Total Debt as a Percent of Capital Employed
(Percent)



	1983	1982
	(in thousands)	
Short-term borrowings—domestic	$ 3,262	$ 35,622
—foreign	154,218	133,989
Total short-term borrowings	157,480	169,611
Long-term borrowings—current	107,073	7,117
—non-current		
—senior	593,774	634,359
—subordinated	77,706	78,152
Total long-term borrowings	778,553	719,628
Total borrowings	936,033	889,239
Capital lease obligations		
—current	12,202	13,558
—non-current	147,710	151,640
Total capital lease obligations	159,912	165,198
Total debt (including capital lease obligations)	1,095,945	1,054,437
Shareholders' equity	1,794,158	1,650,465
Total debt and shareholders' equity	2,890,103	2,704,902
Deferred income taxes and other liabilities and deferred credits	568,957	337,213
Total capital employed	$3,459,060	$3,042,115

Discussion of the Effects of Inflation

In spite of the slowing of inflation in the last two years, the high rates of inflation that significantly affected the American economy in the late 1970's and early 1980's have eroded the purchasing power of the dollar and have distorted the conventional measures of financial performance based on historical cost accounting. To assist readers of financial statements in assessing the impact of inflation, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 33, "Financial Reporting and Changing Prices," which requires the presentation of certain information on the effects of inflation on business enterprises under two different methods: constant dollar and current cost.

The constant dollar method is intended to measure the impact of general inflation on PepsiCo's operations. The restated amounts are referred to as constant dollar amounts since the conventional measures of earnings and capital, which are expressed in dollars of varying purchasing power (historical dollars), have been restated into dollars of the same purchasing power using the Consumer Price Index for All Urban Consumers (CPI-U).

The current cost method attempts to measure the effects of changes in the specific costs of PepsiCo's assets from the dates they were acquired to the present. Several methods were used in estimating these amounts, including direct pricing and indexing, which are intended to reflect costs to replace existing assets with identical assets rather than with different or technologically improved assets. Current costs differ from constant dollar amounts to the extent that the specific costs of PepsiCo's inventories and property, plant and equipment have increased more or less rapidly than general inflation.

The accompanying statement of earnings and five-year summary of selected data reflect certain adjustments to the amounts shown in the primary financial statements using both the constant dollar and current cost methods. Since both methods involve the use of assumptions, approximations, and estimates, readers are cautioned that the following information should not be viewed as precise indicators of the effect of inflation on PepsiCo's operations.

Under the guidelines of SFAS 33, only cost of sales and depreciation expense are required to be adjusted in the statement of earnings, since these are the items of income which are most affected by inflation. During inflationary periods these adjustments will usually result in lower earnings than reported in the primary financial statements.

The slightly lower cost of sales amount on a constant dollar basis, compared to current cost, reflects the fact that the increase in specific costs of PepsiCo's inventories marginally outpaced the rate of inflation in 1983. In other words, for the average two-month period between the time PepsiCo produces and the time it sells its inventories, the increase in cost to replace those inventories has been more than the increase in general inflation.

Although productivity improvements have helped offset the inflationary impact of higher inventory costs on the primary financial statements, it should be noted that the ability of a company to recover cost increases by raising selling prices is subject to normal competitive factors and regulatory conditions.

The current cost of fixed assets remained higher than the cost of fixed assets adjusted for general inflation. Consequently, depreciation on a current cost basis has exceeded the same amount on a constant dollar basis.

In 1983, income under constant dollar is higher than under current cost because both depreciation and cost of sales are higher on a current cost versus constant dollar basis. In 1982, income under constant dollar was again slightly higher than current cost because even though cost of sales was lower on a current cost basis, higher depreciation on a current cost versus constant dollar basis more than offset the difference in cost of sales. In 1981, although depreciation on a current cost basis again exceeded depreciation on a constant dollar basis, the differential did not offset the correspondingly lower cost of sales under the current cost method. Therefore, income under the current cost method was higher than under constant dollar.

In accordance with SFAS 33, restated net income does not reflect an adjustment to historical cost income tax expense because present tax laws do not allow deductions for increased depreciation expense and cost of sales due to inflation. Consequently, the 1983 effective tax rate on both constant dollar and current cost basis is higher than on an historical cost basis, at 39.5 percent and 40.6 percent, respectively, versus the historical effective rate of 33.2 percent.

Statement of Earnings
Adjusted for the Effects of Inflation
For the Year Ended December 31, 1983

(in thousands except per share amounts)

	1983		
	As Reported in the Primary Financial Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Net sales and other operating revenues	$7,895,936	$7,895,936	$7,895,936
Cost of sales, excluding depreciation	2,913,121	2,920,016	2,922,410
Depreciation and amortization	252,300	313,485	321,080
Other operating expenses, net	4,182,003	4,182,003	4,182,003
Net interest expense	123,440	123,440	123,440
Provision for income taxes	140,961	140,961	140,961
	7,611,825	7,679,905	7,689,894
Net income	$ 284,111	$ 216,031	$ 206,042
Per common share	$ 3.01	$ 2.30	$ 2.19
Purchasing power gain on net monetary liabilities		$ 46,088	$ 46,088
Effect of increase in general price level on inventories and property, plant and equipment during the year			$ 111,826
Decrease in specific prices (current costs)[1]			6,979
Excess of increase in general price level over decrease in specific prices			$ 118,805

[1] At December 31, 1983 current cost of inventory was $404,730 and current cost of property, plant and equipment, net of accumulated depreciation, was $2,865,916.

Besides the impact of inflation on the conventional measures of net income, inflation affects monetary assets and liabilities, such as cash, receivables and payables. During periods of inflation, monetary assets lose purchasing power since they will buy fewer goods or services as the general level of prices rises. Conversely, holders of monetary liabilities benefit during inflation because cheaper dollars are used to satisfy these obligations in the future.

Since PepsiCo had net monetary liabilities during the year, a net gain in purchasing power is disclosed in the adjusted statement of earnings under both the constant dollar and current cost methods. This gain, which amounted to $46,088,000 in 1983, $45,684,000 in 1982 and $101,796,000 in 1981 (stated in average 1983 dollars), should be viewed as part of the overall impact of inflation on operations. Since the interest rate charged by lenders is intended, in part, to compensate them for lost purchasing power during inflation, historical cost interest expense should theoretically be reduced by the purchasing power gain from holding net monetary liabilities. However, the FASB requires that this gain be shown separately from net income in the statement of earnings.

SFAS 33 also requires that increases in current costs based on specific prices of inventories and property, plant and equipment during the year be compared with the amount of such increases based on changes in the general price level. This comparison indicates that the change in the current costs of those assets adjusted for inflation resulted in a differential comparable to the prior year. The change in the current cost of PepsiCo's assets prior to the adjustment for general inflation has remained relatively flat in 1983 due to the slowing of price increases domestically and the decrease of the current cost of assets of certain foreign operations when translated into U.S. dollars.

In addition to the statement of earnings, various financial data for the past five years have been restated into average 1983 dollars and are presented in a separate schedule. The schedule shows that in "real" terms (i.e., after removing the effects of inflation), sales have grown each year since 1979.

The value of PepsiCo's net assets on both a constant dollar and current cost basis is considerably higher than the historical dollar amount primarily due to the impact of inflation on property, plant and equipment. The current cost amount of net assets is higher than the corresponding amount in constant dollars, principally because the prices of PepsiCo's fixed assets have increased at a faster rate than general inflation during the period since acquisition, although the differential has been diminishing over the past several years.

Dividends have increased every year between 1979 and 1983 on a historical cost basis. When adjusted for inflation, they have increased between 1979 and 1982, but between 1982 and 1983 have remained relatively flat.

Between year-end 1979 and year-end 1983, the actual as well as inflation-adjusted market price of PepsiCo's common stock increased, although year-to-year changes moved in both directions.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Inflation

(in thousands of average 1983 dollars except per share amounts)

	1983	1982	1981	1980	1979
Net sales and other operating revenues	$7,895,936	$7,740,232	$7,698,048	$7,224,570	$6,984,580
Constant Dollar Information:					
Net income[1][2]	$ 216,031	$ 135,735	$ 224,798	$ 220,416	$ 256,246
Per common share[1][2]	$ 2.30	$ 1.47	$ 2.45	$ 2.42	$ 2.76
Net assets	$2,387,940	$2,313,323	$2,320,120	$2,188,236	$2,150,351
Current Cost Information:					
Net income[1][2]	$ 206,042	$ 133,979	$ 227,963	$ 200,568	$ 226,764
Per common share[1][2]	$ 2.19	$ 1.45	$ 2.48	$ 2.20	$ 2.45
Excess of increase in general price level over the change in specific prices	$ 118,805	$ 116,959	$ 150,806	$ 110,844	$ 76,560
Net assets	$2,469,583	$2,410,378	$2,478,194	$2,468,454	$2,489,380
Other Information:					
Purchasing power gain on net monetary liabilities	$ 46,088	$ 45,684	$ 101,796	$ 123,788	$ 109,375
Cash dividends declared per common share	$ 1.620	$ 1.631	$ 1.556	$ 1.524	$ 1.517
Market price per common share at year-end	$ 37.61	$ 34.70	$ 38.56	$ 30.02	$ 32.45
Average consumer price index (1967=100)	298.4	289.1	272.4	246.8	217.4

[1] Includes a $79,400 unusual charge without tax benefit during the fourth quarter of 1982 relating to a reduction in net assets of foreign bottling operations (see Note 10 to Consolidated Financial Statements).

[2] Excludes a $17,762 extraordinary charge related to write-off of operating rights in 1980.

Quarterly Financial Data and Information on Capital Stock

The following table presents (in thousands except per share amounts) summarized quarterly financial data for 1983 and 1982:

1983 Quarters Ended	Net sales and other operating revenues	Gross Profit	Net Income	Net Income Per Share
March 19 (12 weeks)	$1,557,609	$ 840,978	$ 37,012	$ .40
June 11 (12 weeks)	1,840,563	1,003,491	74,757	.79
September 3 (12 weeks)	1,992,051	1,088,853	95,159	1.00
December 31 (17 weeks)	2,505,713	1,347,482	77,183	.82
Total	$7,895,936	$4,280,804	$ 284,111	$3.01

1982 Quarters Ended	Net sales and other operating revenues	Gross Profit	Net Income	Net Income Per Share
March 20 (12 weeks)	$1,558,454	$ 828,759	$ 63,870	$ .69
June 12 (12 weeks)	1,805,004	957,628	91,656	.97
September 4 (12 weeks)	1,901,389	1,017,497	109,419	1.16
December 25 (16 weeks)	2,234,151	1,173,061	(40,657) [1]	(.42) [1]
Total	$7,498,998	$3,976,945	$ 224,288	$2.40

[1] Amounts presented for 1982 reflect a $79.4 million unusual charge without tax benefit during the fourth quarter relating to a reduction in net assets of foreign bottling operations. This charge reduced net income per share by $.83 (see Note 10 to Consolidated Financial Statements).

Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges. The range of market prices for PepsiCo stock, as reported on the composite tape for issues listed on the New York Stock Exchange, Inc., and the dividends declared in each quarter of the last two years are set forth in the table below. The quarterly dividend was increased 11 percent in May 1982 from 36½ cents per share to 40½ cents per share. As of February 24, 1984 the approximate number of holders of record of Capital Stock was 59,000.

Quarter	High	Low	Close	Dividend
1983				
1st Quarter	39	32¾	35	40½¢
2nd Quarter	40¼	35	35⅝	40½¢
3rd Quarter	37	33⅛	33¼	40½¢
4th Quarter	38⅞	32⅝	38¼	40½¢
1982				
1st Quarter	37¾	31¼	34⅞	36½¢
2nd Quarter	39⅜	34⅞	38¼	40½¢
3rd Quarter	44	36	43¾	40½¢
4th Quarter	50	32⅝	34	40½¢

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(in thousands except per share amounts)
PepsiCo, Inc. and Subsidiaries
Years ended December 31, 1983 (fifty-three weeks), December 25, 1982 (fifty-two weeks) and December 26, 1981 (fifty-two weeks)

		1983	1982	1981
Revenues	Net sales	**$7,093,587**	$6,747,989	$6,249,843
	Other operating revenues	**802,349**	751,009	777,464
		7,895,936	7,498,998	7,027,307
Costs and Expenses	Cost of sales	**2,996,527**	2,938,827	2,849,004
	Cost of other operating revenues	**618,605**	583,226	603,548
	Marketing, administrative and other expenses	**3,732,292**	3,333,359	2,961,657
	Interest expense	**177,670**	166,194	149,667
	Interest income	**(54,230)**	(53,089)	(44,830)
		7,470,864	6,968,517	6,519,046
Income Before Income Taxes and Unusual Charge		**425,072**	530,481	508,261
	Provision for United States and foreign income taxes (including deferred: 1983–$45,800; 1982–$74,200; 1981–$22,300)	**140,961**	226,793	210,777
Income Before Unusual Charge		**284,111**	303,688	297,484
Unusual Charge	Reduction in net assets of foreign bottling operations (without tax benefit)	**–**	79,400	–
Net Income		**284,111**	224,288	297,484
	Retained earnings at beginning of year	**1,489,797**	1,412,636	1,245,096
	Cash dividends (per share: 1983–$1.62; 1982–$1.58; 1981–$1.42)	**(151,358)**	(147,127)	(129,944)
	Retained earnings at end of year	**$1,622,550**	$1,489,797	$1,412,636
Net Income Per Share		**$ 3.01**	$ 2.40	$ 3.22

See accompanying notes

CONSOLIDATED BALANCE SHEET

(in thousands)
PepsiCo, Inc. and Subsidiaries
December 31, 1983 and December 25, 1982

Assets

	1983	1982
Current Assets		
Cash	**$ 25,221**	$ 20,308
Marketable securities	**529,655**	260,042
Notes and accounts receivable, less allowance: 1983—$40,219; 1982—$36,181	**760,892**	746,115
Inventories	**394,106**	414,182
Prepaid expenses and other current assets	**190,046**	149,925
	1,899,920	1,590,572
Long-term Receivables and Investments		
Long-term receivables and other investments	**164,354**	148,351
Investment in tax leases	**77,941**	77,914
	242,295	226,265
Property, Plant and Equipment		
Land	**197,127**	174,089
Buildings	**768,718**	678,740
Machinery and equipment	**2,095,240**	1,907,815
Capital leases	**191,631**	195,659
Bottles and cases, net of customers' deposits: 1983—$32,777; 1982—$46,952	**56,550**	100,586
	3,309,266	3,056,889
Less accumulated depreciation and amortization	**1,138,765**	1,007,698
	2,170,501	2,049,191
Goodwill	**235,860**	236,590
Other Assets	**89,764**	94,852
	$4,638,340	$4,197,470

See accompanying notes

Liabilities and Shareholders' Equity

	1983	1982
Current Liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)	**$ 276,755**	$ 190,286
Accounts payable	**461,712**	554,007
United States and foreign income taxes	**80,826**	59,673
Other accrued taxes	**71,402**	56,373
Other current liabilities	**565,340**	485,302
	1,456,035	1,345,641
Long-term Debt	**671,480**	712,511
Deferred Income Taxes	**416,900**	249,100
Capital Lease Obligations	**147,710**	151,640
Other Liabilities and Deferred Credits	**152,057**	88,113
Shareholders' Equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued: 1983—94,986,557; 1982—94,916,223 shares	**4,749**	4,746
Capital in excess of par value	**245,030**	242,154
Retained earnings	**1,622,550**	1,489,797
Cumulative translation adjustment	**(40,976)**	(46,013)
Less cost of repurchased shares: 1983—1,425,915; 1982—1,541,884	**(37,195)**	(40,219)
	1,794,158	1,650,465
	$4,638,340	$4,197,470

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands)
PepsiCo, Inc. and Subsidiaries
Years ended December 31, 1983 (fifty-three weeks), December 25, 1982 (fifty-two weeks) and December 26, 1981 (fifty-two weeks)

		1983	1982	1981
Financial Resources Provided	Operations			
	Net income	**$ 284,111**	$ 224,288	$ 297,484
	Depreciation and amortization	**260,723**	230,405	205,477
	Deferred income taxes	**45,800**	74,200	22,300
	Unusual charge	**—**	79,400	—
	Other	**101,182**	1,387	20,024
	Working capital provided by operations	**691,816**	609,680	545,285
	Change in components of operating working capital (except cash and marketable securities)			
	Notes and accounts receivable	**(18,010)**	1,807	(134,362)
	Inventories	**19,887**	23,555	(10,754)
	Prepaid expenses and other current assets	**(34,871)**	(31,484)	(7,709)
	Accounts payable	**(90,975)**	84,650	17,675
	Other current liabilities	**74,301**	22,434	101,498
	Taxes payable	**52,751**	11,504	3,408
		3,083	112,466	(30,244)
	Cash provided by operations	**694,899**	722,146	515,041
	Realized benefit on investment in tax leases	**115,390**	283,662	75,986
	Property disposals	**53,578**	24,970	24,547
	Bottles and cases, net	**11,685**	(8,973)	(5,313)
	Other	**54,131**	(35,115)	(9,413)
		929,683	986,690	600,848
Financial Resources Applied	Plant and equipment	**522,327**	476,178	414,397
	Acquisitions	**—**	130,284	—
	Investment in tax leases	**—**	56,318	367,279
		522,327	662,780	781,676
	Total before financing	**407,356**	323,910	(180,828)
Total Financing	Additions to long-term debt	**63,206**	149,826	183,838
	Reductions of long-term debt and capital lease obligations	**(137,137)**	(132,561)	(148,710)
	Notes payable	**86,469**	(220,350)	270,837
	Cash dividends	**(151,271)**	(142,497)	(126,161)
	Capital stock (including conversion of debt)	**5,903**	63,053	7,869
		(132,830)	(282,529)	187,673
Increase in Cash and Marketable Securities		**$ 274,526**	$ 41,381	$ 6,845

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1/Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of PepsiCo, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated.

Marketable Securities. Marketable securities are stated at cost which approximates market and include time deposits of $321,000,000 in 1983 and $151,000,000 in 1982.

Inventories. Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out method) or net realizable value (see Note 2).

Tax Leases. The Investment in Tax Leases represents the unamortized cost of tax leases purchased under the "safe harbor" leasing provisions of the Economic Recovery Tax Act of 1981, plus income accrued on the outstanding investment. The investment is reduced as tax credits and tax savings from accelerated depreciation deductions equal to the purchase cost are realized. These tax benefits are not included in PepsiCo's tax provision (see Note 7). The remaining unrecovered cost is amortized by an interest method over the periods during which the company has the use of additional temporary tax savings.

Property, Plant and Equipment. Land, buildings, and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the respective assets.

Valuation of returnable reusable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage, less related customers' deposits, is charged to cost of sales. In deposit markets, returnable reusable bottles and cases are adjusted to deposit value over periods not in excess of their useful lives. In non-deposit markets, returnable reusable bottles and cases are carried at cost and written-off over their estimated useful lives.

Goodwill. Goodwill represents the excess of cost over net tangible assets of companies acquired and trademarks. Approximately $60 million, relating to acquisitions made prior to November 1, 1970, is not amortized unless there is an impairment of value. The remaining $176 million is amortized over appropriate periods not exceeding 40 years. Amortization was $7,885,000 in 1983, $5,843,000 in 1982 and $4,081,000 in 1981.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and except for materials in inventory and prepayments, are substantially expensed by the end of the year in which the cost is incurred.

Interest Costs. Interest costs associated with the construction of new facilities or major expansions are capitalized and amortized to expense over the lives of the related assets. The amount of interest capitalized was $6,628,000 in 1983, $6,097,000 in 1982 and $8,965,000 in 1981 with corresponding reductions in interest expense.

Foreign Currency Translation. Effective as of the beginning of fiscal 1982, PepsiCo changed its method of accounting for foreign currency translation in order to comply with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," (see Notes 5 and 9). Fiscal 1981 has not been restated for the change and is presented in accordance with SFAS 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements."

Income Taxes. Deferred income taxes arise from the deferral of investment tax credits, which are amortized over the estimated useful lives of the related assets, and from timing differences between financial and tax reporting, principally financing transactions, depreciation, and installment sales.

Taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of subsidiaries operating outside the U.S. have been reinvested indefinitely in foreign operations. Accordingly, no provision has been made for additional taxes, not material in amount, that might be payable with respect to such earnings in the event of remittance.

Net Income Per Share. Net income per share is computed by dividing net income (adjusted for interest expense related to convertible debentures) by the average number of common shares and common share equivalents outstanding during each year. The conversion of all convertible debentures would not result in a material dilution.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December. Fiscal year 1983 ended on December 31, 1983 and comprised fifty-three weeks. Fiscal years 1982 and 1981 ended on December 25, 1982 and December 26, 1981, respectively, and each comprised fifty-two weeks.

Business Segments. Information related to revenues, operating profits, identifiable assets, depreciation and amortization expense and capital expenditures for PepsiCo's business segments is presented on page 29.

Audit Committee of the Board of Directors. The Audit Committee of the Board, composed entirely of outside directors, meets on a regular basis with PepsiCo's financial management, internal auditors and certified public accountants to review internal and external audit plans, activities and recommendations, as well as PepsiCo's financial controls.

Note 2/Inventories

Inventories at December 31, 1983 and December 25, 1982 are summarized as follows:

	1983	1982
	(in thousands)	
Finished goods	$185,001	$178,382
Raw materials, supplies and in-process	206,927	224,050
Equipment held for resale	10,689	18,681
Total (approximates current cost)	402,617	421,113
Excess of current cost over LIFO cost	(8,511)	(6,931)
	$394,106	$414,182

Inventories valued at cost, computed on the last-in, first-out (LIFO) method comprised 61% and 60% of inventories at December 31, 1983 and December 25, 1982, respectively.

Note 3/Notes Payable and Long-term Debt

Notes payable and long-term debt (less current maturities) at December 31, 1983 and December 25, 1982 are summarized below (in thousands):

	1983	1982
Notes Payable		
9¼% notes due 1984	$100,000	$ –
Current maturities on other long-term debt and capital lease obligations	19,275	20,675
Commercial paper	–	24,938
Other notes payable, primarily to foreign banks	157,480	144,673
Total notes payable	$276,755	$190,286

	1983	1982
Long-term Debt (less current maturities)		
10⅛% notes due 1986	$150,000	$150,000
9¼% notes due 1984	–	100,000
8¼% notes due 1985	100,000	100,000
8% convertible subordinated debentures due 1996	73,184	73,184
Zero coupon notes, $75,000 face value due 1984 (14.29% semiannual yield to maturity)	70,204	61,008
Zero coupon notes, $100,000 face value due 1992 (14.42% semiannual yield to maturity)	32,399	28,124
Zero coupon notes, $125,000 face value due 1994 (14.08% semiannual yield to maturity)	31,345	27,304
Zero coupon serial debentures, $850,000 face value due 1988–2012 (13.91% semiannual yield to maturity)	68,124	59,331
Other	146,224	113,560
Total long-term debt	$671,480	$712,511

PepsiCo maintains bank credit facilities in full support of outstanding commercial paper. At December 31, 1983 PepsiCo had unused credit facilities aggregating $341 million, providing it with domestic and international credit availability and support for the issuance of commercial paper. Of the total, approximately $81 million represents lines of credit and $260 million represents revolving credit agreements. These revolving credit agreements cover potential borrowings of up to $245 million maturing January 2, 1989 and $15 million maturing January 2, 1985. These facilities provide the company an ability to refinance short-term borrowing. They currently support the classification of the zero coupon notes, $75 million face value due 1984, as long-term debt, since it is the company's intent to refinance these notes on a long-term basis.

The original issue discounts associated with the zero coupon issues above are being amortized over the lives of the issues on a yield to maturity basis. For tax purposes, the original issue discounts are deductible on a straight-line basis over the lives of the issues, thus reducing the effective costs of these transactions.

Maturities of long-term debt (excluding capital lease obligations) are as follows: 1984–$107,000,000; 1985–$114,000,000; 1986–$167,000,000; 1987–$4,000,000; and 1988–$45,000,000.

The debt agreements to which PepsiCo is a party include various restrictions, none of which is presently significant to the company.

Note 4/Capital Stock and Capital in Excess of Par Value

The changes in capital stock and capital in excess of par value are summarized as follows:

	Capital Stock		Capital in Excess of Par Value	Repurchased Shares
	Shares	Amount		
	(dollars in thousands)			
Balance at December 27, 1980	91,276,522	$4,746	$225,915	$(94,902)
Conversion of debentures and other	160,827	–	(438)	4,193
Exercise of stock options	168,088	–	(269)	4,383
Balance at December 26, 1981	91,605,437	4,746	225,208	(86,326)
Issued for acquisitions	1,217,132	–	9,368	31,721
Issued to TRASOP	286,507	–	5,999	7,470
Payment of compensation awards and exercise of stock options	181,109	–	1,201	4,722
Conversion of debentures	84,154	–	378	2,194
Balance at December 25, 1982	93,374,339	4,746	242,154	(40,219)
Issued to TRASOP	115,969	–	886	3,024
Conversion of debentures and other	16,569	1	350	–
Payment of compensation awards and exercise of stock options	53,765	2	1,640	–
Balance at December 31, 1983	93,560,642	$4,749	$245,030	$(37,195)

Shares reserved at December 31, 1983 were as follows:	
Incentive plan	3,659,686
Convertible subordinated debentures (primarily at $38 per share)	1,954,381
	5,614,067

Under PepsiCo's stock option plans, options for 22,175 shares were exercised at $28.31 per share during 1983. Options for 83,814 and 168,088 shares were exercised in 1982 and 1981, respectively, at prices ranging from $12.67 to $28.31 in 1982 and $12.67 to $28.88 in 1981.

At December 31, 1983 and December 25, 1982, there were outstanding options for the purchase of 745,092 and 978,526 shares, respectively, at prices ranging from $23.88 to $43.06 in both 1983 and 1982. At December 31, 1983 no options for shares were exercisable. In 1983, 211,259 options were cancelled.

In January 1984, 141,352 stock appreciation rights ("SAR's") were granted with respect to certain stock options. Each SAR entitles an optionee to receive, in cash or shares of PepsiCo capital stock (as determined by the Compensation Committee of PepsiCo's Board of Directors), the excess, if any, of the fair market value of a share of capital stock on the date the SAR is exercised, less the option exercise price. Options are automatically cancelled upon exercise of the related SAR. SAR's expire on the same dates as the related options.

Under the 1979 Incentive Plan, the Committee may award performance shares (each unit being limited to the market value of a share of PepsiCo capital stock on date of grant), and an equal number of stock options to purchase capital stock to senior management employees, and may award incentive stock units, rather than options, to other management employees. Performance shares are not paid unless PepsiCo achieves growth in earnings per share, as defined by the Committee, over the period following the award. Incentive stock units are rights to receive shares of capital stock or their value at the date of issue, which vest over a period of time, without payment of any amounts to PepsiCo or satisfaction of any performance objectives.

Payments for performance share units and incentive stock units may be made in cash or in capital stock, or a combination thereof, as the Committee decides. The aggregate number of shares of capital stock which may be delivered or purchased under the Plan may not exceed 4,600,000 shares. During 1980 and 1982, 1,081,731 performance share units were awarded, of which 803,429 were outstanding at December 31, 1983. From 1979 to 1983 incentive stock units were awarded of which 249,825 were outstanding at December 31, 1983. The cost of awards under the 1972 Performance Share Plan and the 1979 Incentive Plan is being charged to income ($12,534,000 in 1983, $3,996,000 in 1982 and $10,452,000 in 1981) over the applicable term of the award period.

Effective January 1, 1981, PepsiCo established a Tax Reduction Act Stock Ownership Plan (TRASOP) for the benefit of certain employees. Under this plan PepsiCo may make a tax creditable contribution of either cash or stock to a trust on behalf of participating employees. During 1983 and 1982 PepsiCo contributed 115,969 and 286,507 shares, respectively, to the TRASOP trust.

Note 5/Cumulative Translation Adjustment

Certain foreign exchange gains and losses are charged directly to Shareholders' Equity in the Cumulative Translation Adjustment account. An analysis of the changes in the Cumulative Translation Adjustment account for the years ended December 31, 1983 and December 25, 1982 follows:

	1983	1982
	(in thousands)	
Cumulative translation adjustment at the beginning of the year	$(46,013)	$(26,582)
Translation adjustments and gains and losses from certain intercompany balances (net of hedges)	28,341	(19,431)
Income taxes allocated to translation adjustments	(25,870)	–
Amounts transferred to net income	2,566	–
Cumulative translation adjustment at the end of the year	$(40,976)	$(46,013)

Note 6/Leases and Commitments

PepsiCo and its subsidiaries have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2050 and 2026, respectively. An analysis of leased property under capital leases by major classes at December 31, 1983 and December 25, 1982 is summarized as follows:

	1983	1982
	(in thousands)	
Buildings	$178,097	$178,185
Machinery and equipment	13,534	17,474
	191,631	195,659
Less accumulated amortization	81,257	79,170
	$110,374	$116,489

Following is a schedule by year of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1984	$ 28,552	$ 60,369	$ (6,128)	$ (6,947)
1985	25,920	49,367	(6,168)	(6,791)
1986	24,710	39,443	(6,131)	(6,443)
1987	23,530	30,682	(5,953)	(5,955)
1988	22,293	26,283	(5,627)	(5,364)
Later years	164,000	166,480	(59,403)	(41,997)
Total minimum lease commitments (receivables)	$289,005	$372,624	$(89,410)	$(73,497)

The present value of minimum lease payments for capital leases amounts to $159,912,000 after deducting $3,656,000 for estimated executory costs (taxes, maintenance and insurance) and $125,437,000 representing imputed interest. The present value of minimum sublease receivables amounts to $45,302,000 after deducting $43,365,000 of unearned income. Total rental expense for all operating leases for years ended December 31, 1983, December 25, 1982 and December 26, 1981 was $116,756,000, $109,764,000 and $91,863,000, respectively. Total rental income from all operating subleases for years ended December 31, 1983, December 25, 1982 and December 26, 1981 was $15,454,000, $9,238,000 and $8,789,000, respectively.

At December 31, 1983, PepsiCo and its subsidiaries were contingently liable under direct and indirect guarantees aggregating $69,000,000.

Note 7/Income Taxes

The provision for U.S. federal and foreign income taxes is comprised of the following:

	1983	1982	1981
		(in thousands)	
Current:			
U.S.	$ 81,334	$126,495	$147,282
Foreign	13,827	26,098	41,195
Deferred (principally U.S.)	45,800	74,200	22,300
	$140,961	$226,793	$210,777

The provision for current U.S. federal income taxes excludes tax benefits in 1983, 1982 and 1981 of $119,311,000, $150,132,000 and $225,698,000, respectively, from tax lease transactions (see Note 1).

U.S. and foreign income (loss) before federal and foreign income taxes were as follows:

	1983	1982	1981
		(in thousands)	
U.S.	$513,855	$518,328	$388,160
Foreign	(88,783)	12,153	120,101
	425,072	530,481	508,261
Unusual charge relating to a reduction in net assets of foreign bottling operations	–	79,400	–
Total	$425,072	$451,081	$508,261

The differences between the effective and statutory U.S. federal income tax rate are comprised of the following:

	1983	1982	1981
U.S. statutory rate	46.0%	46.0%	46.0%
Investment tax credits	(4.0)	(2.9)	(2.3)
Effect of earnings and losses of foreign operations taxed at an aggregate rate different than the statutory U.S. rate	(5.8)	(1.1)	(2.2)
Effect of losses on refranchising of foreign bottling businesses taxed at an aggregate rate different than the statutory U.S. rate	(3.9)	.6	–
Other-net	.9	.2	–
	33.2	42.8	41.5
Effect of unusual charge relating to a reduction in net assets of foreign bottling operations without tax benefits	–	7.5	–
Effective rate	33.2%	50.3%	41.5%

Deferred income tax expense arises from the following items:

	1983	1982	1981
		(in thousands)	
Excess of tax over financial statement expense related to financing transactions	$ 22,200	$ 26,900	$ 5,900
Excess of tax over financial statement expense related to depreciable assets (including capital leases)	34,200	20,300	23,800
Deferral of income from installment sales	(2,600)	11,000	–
Deferral of investment tax credit benefits	2,700	9,800	4,000
Other-net	(10,700)	6,200	(11,400)
	$ 45,800	$ 74,200	$ 22,300

U.S. and foreign income taxes payable consists of the following:

	1983	1982
	(in thousands)	
U.S.	$ 57,899	$ 37,325
Foreign	22,927	22,348
	$ 80,826	$ 59,673

Deferred income taxes payable include:

	1983	1982
	(in thousands)	
Deferred income taxes	$349,400	$184,300
Deferred investment tax credits	67,500	64,800
	$416,900	$249,100

PepsiCo has received notice of proposed deficiencies of income taxes from the Internal Revenue Service of $100,000,000 for the years 1973 through 1978 relating to a reallocation to the U.S. parent company of a portion of the income of subsidiaries operating primarily in Puerto Rico and Ireland under tax incentive grants. PepsiCo is vigorously contesting the proposed deficiencies. After consultation with outside tax counsel, management is of the opinion that the ultimate resolution of these matters, including amounts applicable to years subsequent to 1978, will not have a material adverse effect on the consolidated financial position of the company.

Note 8/Employee Benefit Plans

PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union). The total pension expense for all plans for 1983, 1982 and 1981 was approximately $47,700,000, $44,300,000 and $48,000,000, respectively, which includes amortization of unfunded past service cost over 30 years for certain defined benefit plans. During 1982 the company changed certain actuarial assumptions used in computing pension costs which reduced 1982 pension expense by $8,000,000. PepsiCo makes annual contributions equal to the amounts accrued for pension expense. A comparison of accumulated plan benefits and plan net assets for PepsiCo's domestic defined benefit plans is presented below:

	January 1 1983	1982
	(in thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$235,287	$201,778
Non-vested	72,603	60,033
	$307,890	$261,811
Net assets available for benefits	$361,627	$283,070

The rate of return used in determining the actuarial present value of accumulated plan benefits was seven percent for both 1983 and 1982.

Note 9/Supplementary Income Statement Items

	1983	1982	1981
		(in thousands)	
Maintenance and repairs	$184,800	$186,400	$168,100
Depreciation and amortization of property, plant and equipment	252,300	223,500	200,300
Advertising costs	488,300	437,000	376,500
State income taxes	28,000	20,000	25,900
Foreign exchange gains*	17,100	12,300	22,700

*1983 and 1982 gains were calculated in accordance with SFAS 52. 1981 gains were calculated in accordance with SFAS 8.

Note 10/Unusual Charge

As part of an investigation of financial irregularities discovered in 1982 at certain company-owned foreign bottling operations, PepsiCo conducted a review of financial practices at these operations. As a result of this review, the net assets of certain operations were reduced by an amount totaling $79.4 million. This reduction primarily involved a reassessment of the bottle and case inventories required for current operations and was accounted for as an unusual charge without tax benefit during the fourth quarter of 1982. The charge reduced net income per share by $.83.

Note 11/Litigation

In December 1982 suits purporting to be shareholder class actions were filed against PepsiCo, certain of its officers and directors, certain former officers and directors, and Arthur Young & Company, PepsiCo's Certified Public Accountants. The suits, now consolidated in the United States District Court for the Southern District of New York, allege, among other things, violations of federal securities laws arising out of events reported by PepsiCo in its Form 8-K Reports dated November 8, 1982 and December 14, 1982 which report financial irregularities discovered by PepsiCo in its foreign bottling operations. The suits fail to quantify the damage allegedly sustained. PepsiCo believes the suits are without merit and shall defend against them vigorously. Based upon the same 8-K Reports and other information provided by PepsiCo, in February 1983 the Securities and Exchange Commission (the "SEC") commenced a private investigation of these matters. PepsiCo continues to cooperate with the SEC in its investigation.

PepsiCo and its subsidiaries are involved in various other litigated matters, but believe that none will have a material effect on PepsiCo's business or financial condition. PepsiCo intends to prosecute or defend vigorously, as the case may be, all such matters.

Report of Chief Financial Officer

To Our Shareholders:

PepsiCo, Inc. is responsible for the integrity and objectivity of its financial statements. To fulfill this responsibility, PepsiCo maintains an accounting system and related controls directed towards the safeguarding of assets and the reliability of financial information. An integral part of such controls is an internal audit program designed to monitor compliance with PepsiCo's policies and procedures.

The international accounting firm of Arthur Young & Company has been retained to examine the financial statements of PepsiCo and to report to our shareholders the results of that examination. Representatives of that firm meet regularly with the Audit Committee of the Board of Directors, composed entirely of non-employee directors, to discuss the results of their audit which includes a review and evaluation of PepsiCo's internal controls and financial reporting. Arthur Young & Company's report to you on our financial statements is presented below.

D. Wayne Calloway
D. Wayne Calloway
Executive Vice President
and Chief Financial Officer

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 31, 1983 and December 25, 1982, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 31, 1983 and December 25, 1982, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change in 1982, with which we concur, in the method of accounting for foreign currency translation as described in Note 1 to the Consolidated Financial Statements.

Arthur Young & Company
277 Park Avenue
New York, New York
February 7, 1984

TEN-YEAR COMPARATIVE SUMMARY

PepsiCo, Inc. and Subsidiaries

		1983	1982[1]
Summary of Operations (in thousands except per common share)	Net sales and other operating revenues	**$7,895,936**	$7,498,998
	Cost of sales and other operating revenues	**3,615,132**	3,522,053
	Marketing, administrative and other expenses	**3,732,292**	3,333,359
	Interest expense	**177,670**	166,194
	Interest income	**(54,230)**	(53,089)
		7,470,864	6,968,517
		425,072	530,481
	U.S. and foreign income taxes	**140,961**	226,793
		284,111	303,688
	Equity in net income of PepsiCo Leasing Corporation	**–**	–
	Unusual charge	**–**	79,400[2]
	Net income	**284,111**	224,288[2]
	Per common share	**$ 3.01**	$ 2.40[2]
	Cash dividends declared	**151,358**	147,127
	Per common share	**$ 1.62**	$ 1.58
	Additions to property, plant and equipment	**522,327**	476,178
	Depreciation and amortization	**260,723**	230,405
	Average common shares and equivalents	**95,480**	94,904
Year-End Position (in thousands except per common share)	Working capital	**443,885**	244,931
	Property, plant and equipment—net	**2,170,501**	2,049,191
	Total assets	**4,638,340**	4,197,470
	Long-term debt[4]	**819,190**	864,151
	Shareholders' equity	**1,794,158**	1,650,465
	Per common share	**$ 19.18**	$ 17.68
	Common shares outstanding	**93,561**	93,374
Statistics and Ratios	Current assets to current liabilities	**1.3 to 1**	1.2 to 1
	Return on average shareholders' equity	**16.5%**	14.0%
	Return on revenues	**3.6%**	3.0%
	Long-term debt[4] to total capital employed[4][5]	**23.7%**	28.4%
	Total debt[4] to total capital employed[4][5]	**31.7%**	34.7%
	Employees	**154,000**	133,000
	Shareholders	**60,000**	48,000

[1] PepsiCo adopted Statement of Financial Accounting Standards (SFAS) No. 52 on foreign currency translation at the beginning of 1982. Prior year results have not been restated for SFAS 52.

[2] The unusual charge relates to a reduction in net assets of foreign bottling operations which reduced net income per share by 83 cents. The charge is without tax benefit.

[3] Excludes extraordinary charge of $17,762 (19 cents per share).

[4] Includes capital leases.

[5] Total capital employed is total debt, shareholders' equity, deferred income taxes and other liabilities and deferred credits.

1981	1980	1979	1978	1977	1976	1975	1974
$7,027,307	$5,975,281	$5,088,632	$4,300,006	$3,649,291	$3,109,366	$2,709,373	$2,408,808
3,452,552	3,021,016	2,590,755	2,225,182	1,881,742	1,639,937	1,487,922	1,361,701
2,961,657	2,410,005	2,031,689	1,647,025	1,392,195	1,153,400	970,049	835,959
149,667	114,673	73,121	51,996	45,983	45,000	52,096	55,998
(44,830)	(31,951)	(25,520)	(21,748)	(25,643)	(26,034)	(21,292)	(18,313)
6,519,046	5,513,743	4,670,045	3,902,455	3,294,277	2,812,303	2,488,775	2,235,345
508,261	461,538	418,587	397,551	355,014	297,063	220,598	173,463
210,777	200,833	168,198	174,337	158,273	135,328	98,964	75,536
297,484	260,705	250,389	223,214	196,741	161,735	121,634	97,927
—	—	—	—	—	—	1,852	2,345
—	—	—	—	—	—	—	—
297,484	260,705[3]	250,389	223,214	196,741	161,735	123,486	100,272
$ 3.22	$ 2.86[3]	$ 2.70	$ 2.40	$ 2.14	$ 1.79	$ 1.38	$ 1.13
129,944	114,886	102,449	88,385	67,021	47,764	37,085	31,755
$ 1.42	$ 1.26	$ 1.105	$ .975	$ .825	$ .633	$ .500	$ .433
414,397	447,445	386,885	364,539	275,116	191,767	139,838	194,614
205,477	172,865	142,053	117,019	93,723	79,057	72,739	64,832
93,060	91,165	92,808	92,883	92,046	90,600	89,288	89,008
331,810	331,303	346,987	356,859	422,554	424,817	369,772	305,108
1,900,617	1,736,570	1,394,679	1,137,010	885,328	713,191	614,803	590,749
4,040,046	3,399,872	2,888,853	2,416,804	2,130,294	1,853,599	1,660,577	1,603,892
821,027	786,319	618,950	479,134	467,808	433,887	463,857	482,491
1,556,264	1,380,855	1,246,628	1,165,104	1,003,401	868,480	719,532	630,367
$ 16.99	$ 15.13	$ 13.71	$ 12.52	$ 10.93	$ 9.50	$ 8.09	$ 7.12
91,605	91,277	90,954	93,075	91,794	91,420	88,894	88,563
1.2 to 1	1.3 to 1	1.4 to 1	1.5 to 1	1.7 to 1	1.9 to 1	1.9 to 1	1.7 to 1
20.3%	19.8%[3]	20.8%	20.6%	21.0%	20.4%	18.3%	16.8%
4.2%	4.4%[3]	4.9%	5.2%	5.4%	5.2%	4.6%	4.2%
27.2%	31.4%	29.2%	26.3%	29.2%	30.6%	34.9%	36.3%
40.8%	36.9%	33.7%	29.4%	32.2%	34.2%	40.2%	47.6%
120,000	111,000	105,000	95,000	83,000	77,000	71,000	68,000
49,000	51,000	53,000	55,000	52,000	48,000	49,000	51,000

PEPSICO, INC. DIRECTORS AND OFFICERS

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PepsiCo, Inc.

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Chief Financial Officer,
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Andrall E. Pearson
President and Chief Operating
Officer,
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InterFirst Corporation and
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Dr. Arnold R. Weber
President, University of
Colorado

Committees

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Cary, Coleman, Garvin,
Murphy, Stewart, Strauss
and Weber

Compensation Committee:
Messrs. Stewart (chairman),
Cary, Coleman, Garvin,
James, Murphy, Strauss
and Weber

Executive Committee:
Messrs. Kendall (chairman),
Bonomo, Garvin, Pearson,
Stewart and Warren

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Chief Executive Officer

Andrall E. Pearson
President and Chief
Operating Officer

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Executive Vice President and
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Vice President, General
Counsel and Secretary

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Assistant Controller

James J. Fitzsimmons
Assistant Controller

Michael B. Purvis
Assistant Controller

Lawrence F. Dickie
Assistant Secretary

Judith N. Davis
Assistant Treasurer

James R. English
Assistant Treasurer

Executive Offices

Purchase, New York 10577
(914) 253-2000

Principal Divisions and Subsidiaries

Pepsi-Cola USA
Purchase, New York 10577
Roger A. Enrico, President

Pepsi-Cola Bottling Group
Purchase, New York 10577
Robert G. Dettmer, President

Pepsi-Cola International
Purchase, New York 10577
Robert H. Beeby, President

Pepsi-Cola Bottling International
Purchase, New York 10577
Thomas J. Rattigan, President

PepsiCo Wines and Spirits International
Purchase, New York 10577
Norman Heller, President

Frito-Lay, Inc.
Frito-Lay Tower
Exchange Park
Dallas, Texas 75235
Michael H. Jordan, President

PepsiCo Foods International
4141 Blue Lake Circle
Suite 260
Dallas, Texas 75234
John S. Pingel, Jr., President

Pizza Hut, Inc.
9111 East Douglas Avenue
Wichita, Kansas 67207
Arthur G. Gunther, President

Taco Bell
16808 Armstrong Avenue
Irvine, California 92714
John E. Martin, President

La Petite Boulangerie, Inc.
591 Redwood Highway
Suite 2200
Mill Valley, California 94941
Terrance A. Collins, President

PepsiCo Food Service International
Purchase, New York 10577
Graham G. Butler, President

North American Van Lines, Inc.
5001 U.S. 30 West
Fort Wayne, Indiana 46818
Kenneth W. Maxfield, President

Lee Way Motor Freight, Inc.
3401 N.W. 63rd Street
Oklahoma City, Oklahoma 73116
Richard L. Frucci, President

Wilson Sporting Goods Co.
2233 West Street
River Grove, Illinois 60171
Willard C. Korn, President

Capital Stock
Shares of PepsiCo Capital Stock are traded on the New York and Midwest Stock Exchanges (Symbol: PEP)

Form 10-K
Copies of PepsiCo's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, New York 10577

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277 Park Avenue
New York, New York 10172

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Morgan Guaranty Trust Company of New York
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(212) 587-6467

Dividend Reinvestment Agent
Morgan Guaranty Trust Company of New York
Dividend Reinvestment Plan
P.O. Box 3506
Church Street Station
New York, New York 10242
(212) 587-6516

Annual Meeting
The Annual Meeting of Shareholders will be held at the offices of the corporation, Purchase, New York, at 10:00 a.m. (EDT) Wednesday, May 2, 1984. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not part of such proxy solicitation.

Shareholder Inquiries
Shareholders requiring assistance with address changes, lost dividend checks or consolidation of multiple accounts should contact:

Stockholder Records Department
Morgan Guaranty Trust
Company of New York
30 West Broadway
New York, New York 10015
(212) 587-6469

For additional assistance or information, please contact:

Coordinator of
Shareholder Relations
PepsiCo, Inc.
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